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A FIRST COURSE
OF
INDIAN ECONOMICS

(With Up-to-date University Questions & Answers)

BY

B. BHATTACHARYYA, M.A.

AUTHOR OF "A FIRST COURSE OF POLITICAL SCIENCE", "A FIRST COURSE OF GENERAL ECONOMICS", "GROUNDWORK OF CIVICS", "STUDENTS' CIVIL PROCEDURE CODE", "CONSTITUTIONAL LAW", ETC., ETC.

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Preface

This book is intended for the use of B. A. students (both Pass and Honours) of Indian Universities. It endeavours to deal with the intricate problems of Indian Economics in a lucid manner. Efforts have been made to cover the University Syllabus within a small compass and to avoid unnecessary details which have been the cause of much confusion among students. The different views on disputed problems have been placed side by side in order to give the students an opportunity of forming their independent opinions. To enhance the usefulness of this book University Questions of the last twenty years have been given at the end of each chapter, and sections containing the answers have been referred to. The author earnestly believes that a careful study of this small book will enable the students to tackle any question that may be set at the examination.

The author acknowledges his indebtedness to the eminent authors of all standard books on the subject, which he has freely consulted in writing these pages.

BELIACHANDI
4th March, 1929.

AUTHOR

Preface to the Ninth Edition

Since the publication of the Eighth Edition of this treatise, India has witnessed revolutionary changes in her economic and political condition. Her international relation has improved greatly on account of the huge accumulation of sterling at her disposal. She now claims the proud position of a creditor country with immense facilities for international commerce. These sterling balances of India are expected to play an important part in moulding her destiny during the Post-war period and deserve careful handling in every scheme for Post-war Reconstruction. The problems of Post-war reconstruction have been discussed fully with particular reference to the sterling resources and the internal resources of India.

In the domain of finance the war-time inflation has received careful treatment and the necessity of a deflationary policy has been emphasized. The difficulties of transition from war-time to peace-time are many but these difficulties can be overcome if India is allowed to shape her industrial policy in her own way. The Authorities that rule India have so long retained a rigid control over her

industries by regulating the tariff policy. India has how been assured of Independence in the near future and if this assurance is followed by real transfer of sovereignty. India will surely be in a position to develop her industries fully. The present-day industrial problems have been dealt with in a relevant chapter.

The old order has been retained as far as practicable. Many old matters have been omitted in order to make room for new matters without adding to the size of the book.

7/2C, BALLYGUNGE PARK
Nov., 1946.

AUTHOR

Preface to the Tenth Edition

The call for this new edition is urgent in view of the epoch-making changes which have taken place in the economic life of India and of Pakistan since the ascendancy in power of the respective National Governments in these New Dominions. The existing stock of the ninth edition stands in the way of publication of an entirely new edition incorporating all new matters systematically in the relevant chapters. Hence a new Appendix has been added at the end of the book in which the students will find in a glance an up-to-date treatment of important topics like Damodar Valley and other Multipurpose Schemes, new achievements in the sphere of Industries, changes in the Railway Administrations, Development in Roads and Airways, changes in the Currency and Banking systems, Nationalisation of Reserve Banks, Position of Sterling Balances and of Public Debts, Food Problems and Rationing of Consumers' goods, Distribution of Resources between Indian Dominion and Pakistan and their relative position in the spheres of Industries and Commerce, Industrial Policies of the two Dominions and the bilateral Treaties for Exchange of Commodities, new Legislations in the domains of Banking and Currency.

50 P. GARCHA ROAD,
BALLYGUNGE, CALCUTTA,
Sept., 1949.

AUTHOR

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CURRENCY

A FIRST COURSE OF

INDIAN ECONOMICS

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Introduction

CHAPTER 1

THE ECONOMIC SCIENCE AND ITS SCOPE

Sec. 1. What is Indian Economics.

Three different senses in which the term 'Indian Economics' is used.

There is a good deal of confusion with regard to the exact significance of the expression "Indian Economics". Sometimes it has been used in the sense of a body of doctrines laid down in ancient works like *Arthasastra*, *Varta*, etc. Again, it is used to mean a body of rules that have evolved out of conditions of Indian life. Sir Theodore Morrison wrote in his 'Industrial Organization of an Indian Province', thus—"when we approach the study of economic phenomena of India we must bear in mind that we are about to deal with a type of industrial organization which is not the type tacitly assumed in most text books upon abstract Economics." Thus Theodore Morrison is of opinion that laws of Economics as enunciated by the western writers cannot be applied to Indian condition ; a separate body of rules should be deduced from the facts of Indian life. This body of rules constitutes, according to his opinion, what is known as Indian Economics. Mr. M. G. Ranade holds the same view. Lastly, it has been used to mean application of the rules of Economic Science to the Indian condition and the ascertainment of their modification and limitations. This is the proper sense in which the term "Indian Economics" is often used at the present time. The popularity of this sense is due to the fact that in course of time the conditions of economic life of India have become in great measure similar to those of the western world and in consequence, the economic laws deduced from the facts of western life can be applied to

Indian conditions with some qualifications and limitations. "A study of the facts of Indian Economic life" says Prof. Brij Narain, "cannot be expected to reveal the existence of entirely new laws governing the production, exchange, distribution or consumption of wealth."

Sec. 2. The Indian School of Economics : why should there be a separate School.

The Classical School of Economics ignored the part that nationality played in the economic life of a nation and opined that economic doctrines were universally applicable. Thus according to this school the economic laws of Great Britain would equally hold good in India and if this opinion is accepted there cannot possibly be any room for a separate school such as the Indian School of Economics. True it is that there are some economic doctrines such as *mobility of labour and capital* which can claim universality but there are others which will vary according to peculiar customs, laws and institutions of a country.

View of the Classical School.

The Indian School of Economics has been the resultant of continuous protests against the policy of economic imperialism adopted by the rulers of India. India being a dependency of Great Britain, its interests have been sacrificed to those of Great Britain. This fact has led many educated and patriotic Indians to study the economic condition of India and to suggest schemes which are really suited to the material conditions of the people of India. Prof. V. G. Kale writes thus—"The distinctive feature of the Indian school of thought is its intensely patriotic conception of the country's reqirements in the sphere of material progress and the characteristically national interpretation of the facts of Indian life."

The Indian School of Economics is the outcome of a protest.

Sec. 3. Importance of the Study of Indian Economics.

The importance of the study of Indian Economics will be evident if we consider the important subjects dealt with in this science. It comprises a discussion of subjects like trade and industry, the fiscal arrangement of the government, the system of currency and such other problems which are vitally connected with the material progress of India. The Indians should take a keen interest in studying economic phenomena and propose schemes which will contribute to their economic well-being. It is not always prudent to leave such an important subject to the care of the governing authorities because, as

It deals with important subjects.

experience shows, they are prompted much more by the desire of benefiting their own country at the cost of India than by an earnest desire for the welfare of our own country. Again, the government of a country, specially the government of India which is very busy in its own sphere, that is, with the maintenance of peace and order, cannot be expected to devote much time and energy for the economic development of India. Under these circumstances India has no chance of succeeding in the keen competitive race now going forward in this world, unless the people are educated enough to understand economic problems of the country and attempt a solution thereof. Again, a systematic study of economic phenomena of Indian life will surely enable us to overcome the obstacles which stand in the way of our economic salvation and to make the most profitable use of our vast natural resources.

Sec. 4. The Scope of Indian Economics.

The scope of Indian Economics is not different from that of the Science of Economics. It deals with all those subjects that are discussed in a book on General Economics. We know that the Science of Economics has been divided into four important parts—Consumption, Production, Distribution and Exchange. A treatise on Indian Economics cannot do away with any of these four topics. In order that it may be all-comprehensive it must deal with the nature of consumption which in a way measures the standard of life of the Indians. It cannot omit an elaborate discussion of the nature of Indian production which shows the economic development of the country. Again, it cannot ignore the importance of the problem of distribution and exchange, because on the proper solution of these questions depend the prosperity of the country and the happiness of its population. This point has been very nicely put by an eminent writer on the subject in the following lines—"the problem of population is not of mere size but of efficient production and equitable distribution."

Discussion of the nature of Indian consumption, production, distribution and exchange.

The Indian Economics also gives us an idea of the people of India with their peculiar institutions such as *Caste system* and *Joint family system*, and points out the part that these institutions play upon their economic life. It gives an account of the physical features of India and their influence on the character of the people. It tells us how far the economic principles of the civilized countries are applicable to India and suggests methods which would improve Indian organisation.

Peculiar institutions.

The scope of Indian Economics is wide enough to include discussion of many modern problems in the domain of Money, Banking and Exchange. The problem of middle class unemployment and the plans for Post-War Reconstruction deserve careful consideration.

Sec. 5. The Slow Growth of Indian Economics.

The slow growth of the science has been due to two groups of causes—.

Though on account of the presence of ancient treatises like Kautilya's *Arthasastra* we cannot be so dogmatic as to assert that the Science of Economics was unknown to India before the Christian era, yet it is certain that the development of the Science was postponed till the advent of the English and the establishment of British rule in India. Very many causes have been responsible for this slow growth of Indian Economics. It will be convenient to divide these causes into two groups—the first group containing those causes that operated in ancient India and the second one comprising those that still exert their influence.

One of the most important of the earlier causes is the spiritualistic temperament of the people of ancient India. "Plain-living and high-thinking" was the ideal and in consequence, the economic problems could not become so very prominent in those days. The second important cause was that the pressure of population on land was less in those days. People could cultivate as much land as they wished and the Law of Diminishing Return did not play an important part.

Besides the above two important causes which were responsible for the slow growth of the science in ancient India there are obstacles which stand in the way of its development at the present time.

(i) One such obstacle is the illiteracy of the people which makes it impossible for them to understand economic problems and to attempt solution thereof.

(ii) Another important obstacle is the want of statistical figures which may help us in studying the economic conditions of India.

(iii) The third obstacle consists in the form of Government which scarcely and reluctantly allows the people to take part in political and economic administration of the country.

(iv) Another difficulty lies in the complexity of Indian problems—a complexity which is due to the fact that India is now in a state of transition. The introduction of western methods of production is causing rapid changes in the economic life of the people but this change has not been uniform in every part of this country.

(v) The next obstacle is the want of systematic study of economic

phenomena which helps the growth of individual opinion. The people are often influenced by the opinion of the party to which they belong and do not care even to learn how far its opinion is valid. Again, the patriotic bias of Indian scholars has concealed the true state of things and thus hampered the systematic growth of this science. The Indian Universities are also blamed for not including, until recently, the study of Indian Economics in their curriculum.

(vi) Lastly, the policy of *Laissez Faire* which the Government and the Anglo-Indians adopted in the earlier stages of the British rule without consulting the public opinion hampered considerably the progress of the Science and was responsible for the enormous loss which India sustained in those days.

Questions and Answers

Q. 1. What is the sense in which the expression "Indian Economics" is generally used by the people ?

Ans. *See*—Sec. 1.

Q. 2. Why is it necessary that Indians should take a keen interest in the study of Indian Economics ?

Ans. *See*—Sec. 3.

Q. 3. Describe briefly the scope of Science.

Ans. *See*—Sec. 4.

Q. 4. Account for the slow growth of Indian Economics.

Ans. *See*—Sec. 5.

CAHPTER II

NATURAL ENVIRONMENT

Sec. 1. Physical features of India.

The physical features of India, as of every other country play a very important part in its economic development. They determine the character of its population and mould the destiny of its inhabitants.

Its area :—India is according to the census of 1941, 1·57 million square miles in area with a population of 388·8 million. It is, in size, thirteen times as large as the United Kingdom and is equal to the whole of Europe except Russia and France. The whole of this area is not under British administration. The part that is under British rule comprises an area of about 0·86 million square miles with a population of about 296 million.

Its boundaries :—India is protected on all sides by natural barriers. The existence of the Himalayas on the north protects it from Chinese invasion. On the east there lie Assam and Burma and on the west there exist the Hindukush, the Suleiman and the desert Plateau. There are sea-boundaries of about equal length—the Bay of Bengal on the east and the Arabian sea on the west. It possesses land frontiers stretching over a distance of 4,600 miles and has an extensive coast line of about 4,300 miles in length.

Sec. 2. Its Trade Facilities.

India is most favourably situated for purposes of trade. Situated as it is at the centre of the eastern Hemisphere and at the head of the Indian ocean it is connected by trade with almost all the industrial countries of the world. But India is not in a position to reap all the benefits of a favourable situation on account of the absence of a large number of ports and harbours on the coast line. The southern coast has few harbours to accommodate big vessels, the eastern coast is surf-bound and the western coast is mostly unbroken and is associated with violent monsoon winds. Again, what ports and harbours there are, they are not easy of defence. Another important fact to be noticed in this connection is that there are only four important openings into the land *viz.* (1) the gulf of Martaban, (2) the gulf of Mannar, (3) the gulf of Cutch and (4) the gulf of Cambay.

Four important openings into the land.

The ports which play an important part in facilitating India's trade with foreign countries are seven in number. They are located in Calcutta, Madras, Bombay, Karachi, Rangoon, Chittagong and Vizagapatam. One new port—Cochin, has been in constant and regular use by all ships and passenger services since 1930. In 1840 the total value of the sea-borne trade was about £20,000,000, in 1900-01 it was nearly £152,000,000. In 1939-40 the total sea-borne trade was Rs. 43236 crores. The sea-borne trade is assuming importance gradually and at least six-sevenths of this trade is confined to the seven ports mentioned above. India cannot make the most profitable use of her extensive sea-coast because she has failed to develop her shipping position. The sea-board of India also helps greatly the exchange of commodities between the coast districts of the country. Again, there are several rivers which penetrate the different parts of this country and with the help of boats and steamers afford some facilities of transport. Considerable trade is carried on through land-routes and mountain passes. Attempts are being made to improve the land routes to foreign countries. The Russian Railway lines can be conveniently linked up with the Indian Railway system by way of Afghanistan. Again, the development of the Baghdad Railway, the Anatolian Railway system, the Trans-Persian and the Trans-Caspian Railway and the completion of a broad-gauge line through the Khyber Pass to the Landikhana will surely contribute to the growth of India's foreign trade by land. The importance of roads and railways in the sphere of the internal trade of India can never be exaggerated. The condition of these roads was precarious in ancient India. With the establishment of British rule in India great progress was made towards remedying the evil by the construction of metalled roads and railway lines.

Seven important ports.

Roads and Railways facilitate trade.

Sec. 3. It is a Continent.

Sir John Strachey has described India as a continent. This is because it contains men of various nationalities, speaking different languages, with varieties of customs and religious faith. The people of this country may be grouped mainly under seven races and the religions they profess may be classified under ten broad heads. But in spite of the divergences, India may be regarded as a country that is inhabited by people of a single nationality. Prof. V. G. Kale remarks, "The India with which we have to deal as an economic unit is a sub-continent being hammered into a nation and is therefore a subject of study of unique interest. With the North-west Frontier Province

It contains men of different nationlities.

on one side and Burma on another it is like a federation of peoples whose natural and artificial boundaries are being levelled down by the unifying process of modern civilization and of one common law and government." The Hindus and the Muhamedans, for instance, although they belong to different communities having conflicting interests in almost every sphere of life, enjoy, as citizens of a state, the same political rights and are subject to the same political obligation.

Sec. 4. The Natural Divisions.

Geographically speaking the whole of India has been naturally divided into three well-marked parts each of which has distinctive physical characteristics and economic importance. The three divisions may be described as follows :—

(1) The Mountain-Region of the North.

(2) The Indo-Gangetic Plains.

(3) The Deccan Plateau.

(1) *The Mountain-Region of the North.*

The Himalayas run to the south-east of the region. It is well-known for its variety of climate and it is said that one will experience as many variations in temperature as can be found by him while he passes from the equator to the pole.

The economic importance of this mountain range cannot be exaggerated. (*a*) It serves as a natural barrier and protects India from Chinese invasion. (*b*) It helps agriculture by obstructing the clouds that bear moisture and thereby causing some portion of them to come down as rains. (*c*) Some part of the moisture that becomes frozen into snow serves as a source from which the rivers can draw water. (*d*) The waterpower furnished by the mountain streams can be utilised in generating electricity which is a great help to the neighbouring mill-industry. (*e*) The variety of climate in different parts of it has facilitated the growth of agricultural products of various kinds and is particularly suitable for certain plantations, such as tea. (*f*) The forests that have grown on it arrest large quantity of water during the rainy season and thereby supply the streams with water during the dry season. (*g*) The cold climate of this region attracts men of position specially during summer when it is impossible to live in the other parts of India. (*h*) The scenery of the Himalayas is pleasant and has been highly spoken of by European tourists.

Besides the Himalayas, there are other mountains to the south-west of this region. There are several passes across these mountain ranges. These passes, of which the Khaiber, the Gumal, and the Bolan are

well-known, serve as routes through which India's foreign trade with Afghanistan is carried on.

(2) *The Indo-Gangetic Plain.*

Indo-Gangetic plain is one of the greatest alluvial tracts in the world.

The plain is bounded by the Himalayas on the north, the Bay of Bengal on the east, the Vindhyas on the south, and the Hindukush on the west. The economic importance of this part of the continental India is due to the existence of three great rivers—(*i*) the Ganges, (*ii*) the Indus and (*iii*) the Brahmaputra.

(*i*) *The Ganges*—The river has been described as one of "the greatest waterways in this world." It is as important to India as the Thames is to England. Before the introduction of Railways it was almost the sole channel of traffic between upper India and the seaboard. It serves the purpose of irrigation and fertilises the soil by the deposit of silt that it carries with it. It is for these manifold advantanges conferred by the Ganges that a sort of religious sanctity has been attached to it.

(*ii*) *The Indus*—This river, which flowing through Tibet and Kashmir, enters into the Panchananda, cannot be favourably compared with the Ganges so far as the economic importance is concerned ; yet its importance for agricultural development cannot be ignored. It facilitates the growth of many principal crops such as rice, jute, wheat, barley and sugar etc., by the creation of alluvial plains which extend over a number of provinces.

(*iii*) *The Brahmaputra*—This river is very important for the facilities that it affords for steamer traffic between Assam and Bengal.

The above rivers are useful in this sense that they remove in a great measure the difficulty of irrigation and add to the fertility of the soil. They have facilitated the construction of several productive irrigation works on which depends the economic prosperity of the Punjab, Sind and the United Provinces. They have also done away with that economic isolation which hampers material progress; but the defects inherent in them can never be ignored. They have been destroyers of land which lies adjacent to their banks. They change their course constantly with the result that their banks can scarcely develop as trade centres. They seldom allow big steamers to ply in them without any risk.

The favourable situation and climate of this plain, the fertility of its soil and the immense facility which its flat relief offers for the

construction of roads and railways have gone a great way in making the plain the seat for ancient Aryan civilization and in adding to its economic prosperity.

(3) *The Deccan Plateau.*

The Deccan Plateau is triangular in shape having for its base the the Vindhya ranges, and for its apex the Cape Commorin ; and the two other sides are represented by the Eastern and the Western Ghats. It covers the whole of Peninsular India. There are several rivers which pass through this area ; but as most of them depend upon rainfall for the supply of water they become almost dry during the summer. Thus these rivers cannot be profitably used for the purposes of navigation There is little scope for communication from the sea and the monsoon clouds often fail to cross the mountainous barrier. The result is that rainfall is uncertain in this part of India and failure of crops is usually followed by famine with all its devastating consequences. The general slope of the table-land determines the courses of the rivers. The slope being generally from west to east, the great rivers like the Mahandi, the Kaveri and several others flow into the Bay of Bengal.

The plateau is triangular in shape.

Products—The Daccan is famous for its rich forest, cinchona trees and the cocoanut palms. The surface of this Peninsula is generally rocky and uneven and affords little scope for extensive cultivation. The table-land is suitable for the growth of sugarcane, tabacco, oilseeds and several other crops. Rice is produced in the Madras coast but the most important product is cotton. The warm damp hill-sides in the south are favourable for the growth of tea and coffee plants. Moreover, the Plateau is rich in mineral products, the most important of which are coal, iron, gold and mica.

Sec. 5. Indian Monsoons and the Rainfall.

India is mainly an agricultural country and her prosperity is intimately connected with the development of her agricultural industries ; but these industries cannot flourish if there is no adequate supply of water. Water which is necessary for this purpose can be supplied in two different ways—(*a*) by irrigation and (*b*) by rainfall. The former method cannot be taken recourse to in every part of India because the lands are not always suitable for the purpose of irrigation. India, therefore, has to depend for its water-supply mainly upon rainfall.

The rainfall in India is largely influenced by the monsoons. The monsoons are nothing but the periodic winds that carry the water-laden clouds. There are two such currents—south-west monsoon and the north-east monsoon. The scientific reason that can be attributed to the origin of the two currents is that moist air always replaces the hot air. Just in the beginning of summer season the land warms up more than the sea. The result of this natural phenomenon is that moist air from the sea comes and replaces the hot and dry air above the earth. This moisture then is formed into clouds and is carried northward by a wind which comes from the south. As this wind comes from the ocean it is laden with moisture. This is the south-west monsoon which lasts from June to September. The direction of the wind is not everywhere the same. Its direction is south-west over the Deccan, south over the Ganges delta and south-east up the Ganges valley. This leads to the division of the current into three separate currents—(*i*) the Bombay current, (*ii*) the Bengal current, and (*iii*) the Burma current.

The Bombay current first comes into collision with the Ghats and is responsible for heavy shower of rain there, but going further up to Sind, Rajputana and the Punjab it yields little or no rain.

The Bengal current gives heavy downpours to Bengal, Bihar and Assam till at last it is arrested by the Himalayas. The Burma current passes all over Burma and is the cause of heavy shower in that province.

The south-west monsoon is highly important inasmuch as it accounts for nearly 90 per cent. of the total rainfall.

The other current is known as the north-east monsoon. It is the south-west monsoon in retreat and flows from the land towards the sea. The course of the wind is attributed to the fact that during the winter season the land becomes much cooler than the seas and as such the cold and moist air above earth rushes towards and replaces the hot air on the sea. This current is the cause of wintry rains in Madras and the Punjab.

The rainfall is not however uniform all over the country. It varies widely from 460 inches in Cherrapunji to 2½ inches in upper Sind. In Bengal, Assam, Burma, and the western coast strips the rainfall is certain and abundant. There are also areas of precarious rainfall. These include Bombay, Deccan, Udaypur and Ajmeer. Again, there are areas such as Sind, the Western Rajputana and Western Punjab which suffer from drought.

Sec. 6. The failure of Monsoons and its Economic consequences.

The failure of monsoons means failure of rainfall. The Indian agriculture can prosper only when there is an adequate and timely supply of rain water. Therefore, the want of rain brings about a failure of crops and precipitates the occurrence of famine. The prosperity of the Government is also intimately connected with the prosperity of agriculture. The failure of crops thus entails a loss of Government revenue from the various sources—land, customs, stamp, excise—while its expenditure in connection with famine relief increases. The price of agricultural crops increases and the stock of agricultural produce is too insufficient for external trade. The result is that the export trade of the country decreases and leads to an unfavourable balance of trade which, again, creates difficulties in the matter of foreign exchange, and of payment of Home charges.

The purchasing capacity of people falls with the fall in agricultural income and the manufacturers, whose cost of production increases on account of shortage in the supply of raw materials, fail to find a good market for their products. An all-round trade-depression sets in and the receipts of the railways fall heavily on account of reduction of traffic.

Like the failure of rains, the excess of rains and the irregular and untimely supply of rains affect the fortune of the people of India. The distribution of rainfall has an important bearing on the density of population. The areas of abundant and regular rainfall are found to be densely populated and contain self-sufficient villages. An abundant rainfall also helps the easy solution of economic problems and makes people lazy and ease-loving while insufficient and irregular rainfall makes them fatalist.

Sec 7. The Influence of Climate.

The climatic condition of India like that of any other country plays a very important part in moulding human character. In India we find a great diversity of climatic condition. The whole of Peninsular India lies within the tropic. The Indo-Gangetic plains have extremes of temperature both in summer and winter. Broadly speaking we have got in the whole of India except in the hilly districts the extremely hot climate in the summer. The people who live in warmer regions generally become less energetic and more shortlived than those who live in cooler regions. A warmer climate again is associated with high birth-rate which often brings misery in some form or other. The people

On human character.

become less enterprising and the spirit of invention is almost absent. Again, in a tropical climate nature helps man in securing the necessaries of life with comparatively little effort; and this natural advantage which goes to make people lazy has, as the European critics tell us, retarded the growth of economic progress in India. We cannot however fully support this view. Prof. Carr-Saunders has disputed the validity of the view of the European critics and asserts that the greatest abundance in the quantity and quality of useful objects is associated with the greatest chance of their usefulness being observed and the highest *per capita* return from any improvement in skill.

The production of a country depends greatly upon climatic conditions. It has its effect both on the productivity of human beings as well as on that of the soil. People who live in warm climate cannot work hard for a long period time and their inferior physique accounts for their industrial backwardness.

On production.

Again, the products of the soil are largely influenced by the climate. In India the climate is not everywhere the same. The climate of the Punjab differs considerably from that of Bengal and Lower Burma. The former is suitable for the growth of wheat and the latter for rice. The production of other crops has likewise been governed by the climatic influences.

Sec. 8. The Characteristic features of Indian soils.

Indian's fortune depends greatly upon agriculture and the prosperity of this Industry is intimately connected with the character of the soil. Indian soil when compared with that of any other country, will be comparatively dry, and require an adequate supply of water for the purpose of cultivation.

Indian soil does not contain the same properties everywhere ; soils may be mainly classified under four different heads, viz. (i) the alluvial tracts, (ii) the trap soils of the Deccan, (iii) the crystalline soils, and (iv) the laterite soils. The alluvial soil is to be found in Bengal, Assam, the United Provinces, the Punjab, Gujrat, Rajputana, Sind, in some parts of Madras, and in the eastern and western coast strips of the Peninsula. This kind of soil is rich in chemical properties and we find in it the following ingredients—phosphoric acid, potash, lime, and magnesia. This quality of soil is suitable for the growth of Kharif and Rabi crops.

Different kinds of Indian soil.

The trap soils are to be found in the Deccan, Hyderabad, Bombay, and the western portion of the Central Provinces. They are also

present in the river valley of Madras and Bombay. When found in the lowlands they are fertile and help the production of cotton, wheat, pulses and millet. In the Deccan this type of soil is called the black cotton soil because its colour is dark and is suited to the growth of cotton.

The crystalline soils which are also known as the red soils are to be found in Madras, Mysore, Central Provinces, Orissa, southern part of Bengal and south-eastern part of Bombay. The laterite soils extend through the Eastern Bengal into Assam and Burma. These soils do not always contain the same chemical properties and are deficient in nitrates and phosphoric acids. When they occur in the low-lands they are fertile and yield various kinds of crops, the most important being rice.

Sec. 9. The Sources of Power.

The industrial progress of India as of all other countries is more or less dependent upon the sources of powers. In India power may be derived from coal, woodfuel, oil, alcohol, wind and water. The Indian coal cannot compare favourably with foreign coal, and sometimes absence of coal mines near the industrial centres, and heavy freight charges go to enhance the cost of motive power. In Bombay, this difficulty resulting from the scarcity of coal has been overcome by the use of hydro-electric power and the import of South African coal.

Cause of heavy cost of motive power.

The wood-fuel which may be used for generating power comes from the forests. These forests are generally to be found in the hilly tracts and the cost of bringing them to the industrial centres is considerable. Again, the existing forests of India cannot afford to meet the heavy demand for charcoal for industrial purposes. With a view to reducing the cost of charcoal the Industrial Commission suggested the production of certain by-products like methyl, alcohol, wood-tar, etc., and emphasized greatly the advantages of wood-distillation as a method of obtaining charcoal.

Suggestion of Industrial Commission.

The oils may help greatly in the matter of generation of power but the future supply of oil from the oil fields is uncertain in view of the rapid exploitation of Burma fields, and the political separation of Burma from India. The efficiency of alcohol is still doubtful and requires careful experimentation. Synthetic petrol

Uncertainty of the supply of oil.

manufactured from coal and alcohol produced from Molasses may go to add to the power resources of India.

Possibility of Hydro-electric Power.

The water power has an immense prospect for development. It has been successfully used by many industrial concerns. The Industrial Commission emphasized in its report the possibility of hydro-electric power and in recent times many hydro-electric installations have been set up. The first installation of this kind was set up on the Cauvery river at Sivasamudram with a view to supplying power to the Kolar gold fields. Another Scheme in Mysore is the Pallivasal Hydro-electric Scheme which extends upto Alwaye on the West and upto Quilon in the South. Similar works were established on the river Jhelum. There are several hydro-electric schemes which deserve mention in this connection. These schemes are known as Tata Hydro-electric schemes. The first of these works was started in the neighbourhood of Lonavla in 1915. The two other schemes are the Andhra Valley scheme and the Nila-Mula schemes. Another scheme of importance is under contemplation in the huge valley of the Koyna river. All these schemes are intended to supply Bombay, Thana, Kalyan and Poona with cheap power for industrial purposes.

Different schemes.

In the Punjab there is an important scheme known as the Mandi scheme which when completed is expected to provide many industrial concerns with cheap power. The Pykara Hydro-electric scheme and the Mettur Hydro-electric schemes will, when developed, remove the long-felt want of powers in Madras. The Papanasan scheme has recently obtained the approval of the Madras Government and may yield satisfactory results. In the Punjab Ulp River scheme supplies power to the North Western Railway and nineteen towns such as Amritsar, Lahore and Ludhiana. The hydrographic survey of India shows great possibilities of the development of hydro-electric power and it has been estimated that the rivers which flow eastwards from the Indus and many other rivers in other parts of the country may provide the neighbouring industries with cheap power.

The hydro-electric system can conveniently be associated with the irrigation projects as the water used in driving the turbines can be easily distributed in the fields for aiding agriculture. The chief difficulty that stands in the way of development of hydro-electric scheme is that the rainfall in India cannot be made to be continuous. Again, the rivers in India cannot afford to supply sufficient water throughout the year and considerable expense has to be incurred in storing up water for the successful operation of the hydro-electric schemes.

Sec. 10. Seasons in India.

Although the calender year has been divided into six seasons each lasting for two months we may for practical purposes divide the whole year into three clearly defined seasons. These are :—(i) The winter, (ii) the hot dry seasons and (iii) the rainy season. The winter which begins in the month of December is accompanied with northernly trade winds and lasts for two or three months. The dry season sets in during the month of March and continues till the beginning of the rains. During this season there is a steady rise in the temperature and in certain parts of India *e.g.*, the Deccan, Sind, Rajputana the heat is sometimes unbearable. This season is followed by the rainy season which is under the control of the south-west monsoons and is accompanied with heavy showers of rain.

Sec. 11. Natural environment how far congenial to economic progress.

It cannot be denied that India has been favoured with plenty of natural resources but the environment has not been very congenial to human endeavour. The climate of the country is generally warm and is not conducive to any sustained human effort. Again, in a vast country like India we find wide variations in temperature. These climatic contrasts which are particularly strong in Northern India tell seriously upon the health and strength of the people.

Climatic contrasts.

Besides this unwholesome climate there are other factors which affect India's economic progress. Land lacks in mineral properties and is extremely dry. The rainfall is not evenly distributed. Rains generally come down in torrents with the result that the fertile portion of the soil which is confined to a few inches of the crust is washed away by the heavy flow of water.

Nature of rainfall.

The supply of minerals is not sufficient to meet the requirement of this vast country and their quality cannot favourably compare with the quality of minerals in western countries.

The fewness of ports and harbours and want of big navigable rivers play no mean part in affecting the economic progress of India. The artificial facilities of communication have to be created by the construction of roads and railways and heavy cost incurred for the purpose enters into the prices of commodities as they are conveyed from one part of the country to another.

Questions and Answers

Q. 1. Describe the physical features of India. What part do they play on the economic development of the country ?

Ans. *See*—Sec. 1.

Q. 2. India has been described by an eminent writer as a continent. How will you support the statement ?

Ans. *See*—Sec. 3.

Q. 3. Give an account of the economic geography of the Indo-Gangetic plains. (C. U. 1912).

Ans. *See*—Sec. 4 (2).

Q. 4. Describe briefly the economic importance of the Himalayas.

Ans. *See*—Sec. 4.

Q. 5 Probably there is no other single group of weather phenomena which is so far-reaching in its effects than the "Indian monsoons". Discuss the statement with reference to economic effects of the failure of monsoons in India. (C. U. 1927)

Ans. *See*—Secs. 5, 6.

Q. 6. Describe the effects of monsoons on Indian agriculture. (C. U. 1921)

Ans. *See*—above.

Q. 7. What influence does Indian climate exert on the economic progress of the country.

Ans. *See*—Sec. 7.

Q. 8. What do you mean by the monsoons in India ? Describe the various economic consequences which follow from their failure.

Ans. *See*—Sec. 5.

Q. 9. Give an account of the different kinds of soil to be found in India.

Ans. *See*—Sec. 8.

Q. 10. Write a short note on :—

Sources of power and their utilisation in India (C. U. 1933)

Ans. *See*—Sec. 9.

Q. 11. What are the important sources of power in India ? Discuss the importance of their proper utilisation for the industrial development of our country. (A. U. 1940)

Ans. *See*—Sec. 9.

CHAPTER III

PRODUCTS OF INDIA

Sec. 1. Principal Crops.

India being mainly an agricultural country, a treatise on Indian Economics should, in its chapter on production, give a brief account of the important kinds of agricultural products raised on India's soil.

(i) *Rice.*

It is one of the staple crops in India. It is consumed by a large percentage of the Indian population and a failure of this crop brings scarcity or famine. It is chiefly cultivated in Bengal, Bihar, Orissa, Assam, Madras, United Provinces, Central Provinces and the coast district of Bombay. This crop cannot thrive except in areas where rainfall is certain or constant or where suitable arrangement has been made for making up the deficiency of rain water.

Where grown.

Bengal comes first in the production of this crop. Then comes Assam. More than one-third (about 35%) of the total cultivated area is under rice. In Bengal about 75 per cent. of the total cultivated area produces rice.

Exclusive of Burma which is now politically separated from the Indian Empire, the total area under this crop was 73·06 million acres, yielding as much as 25·35 million tons in the year '41-'42. Among the producers of rice in the world India occupies the second place while China has the honour of occupying the first. India also exports a large quantity of rice every year. The demand for rice comes chiefly from the United Kingdom, Ceylon, Arabia and Africa. The recent years have witnessed substantial increase in the export of rice. In 1941-42 the export amounted to 304,000 tons as compared with 251, 000 tons in 1940-41. The export was practically confined to Ceylon and south Africa. In 1941-42 the net import did not exceed 982,000 tons as compared with 1887,000 tons in 1939-40.

In recent times the price of rice has risen partly by reason of the extensive military demand for Indian rice and partly by reason of the

decline in the internal and external supply of rice. It is high time to initiate measures for the raising of more food-crops which would be sufficient to meet her internal demand and leave a sufficient supply for export. To improve the export trade in rice better quality of rice must be produced. Again, the quantitative production per acre in India cannot favourably compare with that in Japan and Italy. An Indian farmer gets only 731 lbs. of rice while a Japanese farmer gets as much as 2307 lbs. and an Italian farmer 3000 lbs. from each acre of land. Several research stations have been set up by the Imperial Council of Agricultural Research and the Empire Marketing Board for a comprehensive botanical survey of rice and genetical survey of the rice soil. A standing committee on rice has also been set up in pursuance of the recommendations of the Crop Planning Conference, 1934.

Various uses of rice.

We have stated above that rice is the principal food-crop of India; but this is not the only utility that we derive from rice. It has other uses as well. The foreign countries that import this crop from India use it mainly for the preparation of starch as well as for brewing wine. Again, the husks are used as fuel.

(ii) *Wheat.*

It grows best in cold climate.

Next in importance among the food-crops is wheat. It grows best in those provinces where the climate is cold and the rainfall is moderate *e.g.*, the Punjab, the United Provinces, Central Provinces, Bombay and Sind. The areas under this crop are increasing year by year. It now occupies, on an average about 11 per cent. of the total cultivated area, yielding an annual return of about 10·7 million tons. India stands third in the world production of wheat and contributes as much as 12 per cent of the total production. The first two positions are occupied by U. S. S. R. and U.S.A. respectively. Wheat has a wider market than rice, and hence its price in India is governed by that prevailing in other countries. In 1941-42 the total export was 186,000 tons as compared with 45,000 tons in the previous year. With a view to encouraging import the import duty on wheat was reduced from Re. 1-8 to annas 2 per cwt and was subsequently abolished. The price of wheat began to soar high and the government had to fix maximum prices with a view to controlling profiteering and speculation.

(*iii*) *Sugarcane.*

This plant is important inasmuch as sugar which is necessary for everyday consumption is mainly made out of it. There are other ways of producing sugar, as for example, from the bastard date and the palmyra palms.

The sugarcane is chiefly grown in the United Provinces, in Bengal, in Bihar and in the Punjab. The contribution of the United Provinces is the highest. Other cane-growing provinces are Madras, Bombay, Assam and Orissa. The yield per acre cannot however be favourably compared with that of Cuba, Japan, and Hawaii. Thanks to the untiring efforts of the Agricultural Departments and the Imperial Cane-breeding Station at Coimbatore, the introduction of improved varieties of cane has raised the average yield per acre from 12 tons to 15½ tons.

Difficulties of the sugar industry.

The chief obstacles that stand in the way of the sugar industry may be summarised thus:—(1) India's cultivation of this plant is scattered over small holdings isolated from one another. (2) The Indian peasants do not possess that amount of capital which is necessary for large-scale production. (3) The cultivators are inefficient and have no knowledge of the scientific method of production. (4) The plants of India are of inferior quality and the yield per acre is almost one-fourth of that of Java. Various schemes of research are being promoted by the Imperial Council of Agricultural Research, the Imperial Cane-breeding Station at Coimbatore, and the Imperial Institute of Sugar Technology at Cawnpore. These institutions have already introduced improved varieties of sugarcane and the quantitative production per acre has increased substantially. In 1941-42 the total area under sugarcane was 3·51 million acres and about 75 per cent of this area was under improved variety. In explaining this satisfactory result we cannot ignore the effect of protection afforded by the Sugar Industry Protection Act of 1932 and it is certain that but for the imposition of excise duty by the Act of 1934 greater achievements would have been possible. Efforts are being made to stabilize cane cultivation by passing the Sugarcane Act of 1934 which authorises the Local Governments to fix minimum prices for sugarcane sold to factories and to make rules regarding weighments and licensing of cane contractors. It is gratifying to learn that India's contribution to the total world production of Cane Sugar is the highest.

(*vi*) *Other food-crops and fodder crops.*

There are various other kinds of food-crops which enter into the dietary of the people of India. These include groundnuts, millets, pulses, and barley. The millets—jower, ragi and bajra are grown in Hyderabad, Bombay, Madras, Central Provinces and the United Provinces. They constitute the staple food-crops for the masses and valuable fodder for the cattle. In 1939-40 the millets occupied 49 million acres. In Bombay and Madras special attention is being paid to drought—resistant strains of jower and bajra in connection with the scheme of experiment, financed by the Imperial Council of Agricultural Research. Pulses are consumed by the Indians in large quantities. They are chiefly grown in Bengal, Bombay, the Punjab and the United Provinces. Barley is another food-crop the demand for which is considerable in India. It grows chiefly in the United Provinces and Bihar. Spices of various kinds are grown chiefly in the extreme south of India. Pepper and ginger are cultivated in Malabar ; cloves, chillies and cardamon grow best in Madras. There are also various kinds of fruits and vegetables, the areas under which are being gradually extended with the extension of market for these commodities.

Staple food-crops for the masses.

The importance of fodder cannot be exaggerated because on the regular and sufficient supply of it depend the health and strength of agricultural livestock. India cannot feed her cattle properly and this fact accounts for their inefficiency. In recent times the growing of fodder has been encouraged by the Agricultural Department with the result that 10·47 million acres are now under these fodder crops. The Department has introduced with success the famous Egyptian clover at several places in India.

(*v*) *Jute.*

The production of this commercial crop was almost a monopoly of Bengal but in recent times considerable quantities of this crop are produced in Assam, Bihar, Orissa and the United provinces. This crop grows best in deep soil of fairly fine texture where a rainfall of over 40 inches can be ensured.

In 1941-42 the area under this crop was 2·16 million acres, yielding about 54·2 million bales.

This crop is important so far as the export trade of India is concerned. A large quantity of jute is exported every year to the United Kingdom and the United States. Besides raw jute manufactured jute finds a wide market in foreign countries. With the increase of the British trade in grains, specially of wheat, grew up the demand for gunny bags and this has given an impetus to the jute cultivation. The foreign demand for Indian jute increased so much that almost 80 per cent. of the product was exported out of the country. 1941-42 the total exports of raw and manufactured jute were 1213,000 tons and the value of these shipments rose to Rs. 6430 lakhs. The imposition of jute export duty is expected to have an adverse effect on the volume of export.

Countries that import jute from India.

The world economic depression in 1930-31 had an adverse effect on the industry. The following factors also retarded the growth of the industry :—

(i) over-production of jute, (ii) increased adoption of bulk handling and substitution of jute by paper and cotton, (iii) wide gap between the price of raw jute and the price of jute manufacture, (iv) want of an organised market, (v) unscientific methods of production, (vi) careless and inaccurate forecast causing violent fluctuation and speculation.

The Bengal peasants had to incur a great loss on account of the falling price of jute. Their miserable position attracted the attention of the Government and the Bengal Jute Enquiry Committee was set up in 1934 to enquire into the matter and to submit their report. The majority of the members reported in favour of voluntary restriction of cultivation and in pursuance of the recommendation the Government of Bengal launched a campaign for voluntary restriction in 1934-35. This voluntary restriction could not go to reduce production and a scheme of compulsory regulation of jute cultivation was introduced. The minimum quota was determined and enforced with the help of Jute Association formed in every union. A license should be issued to the growers of jute.

This scheme of regulation of jute production has been criticised on the following grounds :—(1) The authority concerned with the preparation of an estimate will be faced with a great difficulty in determining the true demands for jute in internal and international markets. (2) The administrative machinery will surely fail to prevent evasion of the minimum quota in a widely scattered area. (3) The absence of any suitable crop which may be profitably grown in the surplus land not used in cultivation of jute.

In 1940 the Government came forward to promulgate an ordiance fixing the minimum and maximum prices for jute and jute manufactures at Rs. 60 and Rs. 90 per bale of 5 mds. respectively, but in view of the large supply of jute in the market the Government failed to maintain the prices even at a great loss. The prices began to take a downward course as the Government could not find funds for purchasing the entire stock at the fixed price.

The next step in this connection was the passing of Bengal Jute Taxation Act in 1941. This provides for a tax of 2 as. per maund on raw jute purchased by mill-owners and shippers of jute. The proceeds of the tax will be utilised in stablizing the prices of jute and promoting the interest of jute growers.

These measures for controlling the prices are intended for the benefit of the growers of jute and will, when effective, protect the growers of jute against unwholesome manipulation of prices at the instances of buyers and speculators. The co-operation of the jute growers is also necessary. They should strictly observe any regulation which the Government may choose to lay down and should establish co-operative marketing organisation in order to eliminate the middlemen whose influence in the manipulation of prices of jute has been painfully experienced by them.

(*vi*) *Cotton.*

Cotton is the most important of all textile crops in India. It is chiefly cultivated in Bombay, Berar, Central Provinces, Hyderabad, Madras and the Punjab. The black soil of the Deccan is favourable to the growth of this crop.

India stands third in the production of this crop. Its productive capacity, so far as this crop is concerned, varies from 75 to 100 lbs. per acre while Egypt produces as much as 360 lbs. and the U.S.A. as much as 200 lbs. per acre. In 1941-42 the total area under cotton in India was 24·15 million acres producing 4·91 million bales of cotton.

India produces varieties of cotton ; some of these take at least eight months to ripen while others ripen in five months.

Indian cotton is inferior in quality. This inferiority has been due to the following causes :—First, inferior cotton is much more extensively cultivated than the superior one because the former can and the latter cannot withstand drought.

Secondly, there is no great demand for long-staple cotton in Indian market which is accustomed to use short-staple cotton. Thirdly, the imperfect method of selecting seeds has been, in a measure, responsible for the inferior quality of the crop.

India exports as much as 30% of the total output of this crop ; but an increase in the demand for indigenous cotton has, in recent times, the effect of decreasing the amount of the export. In 1940-41 the export of cotton amounted to 20·1 lakhs of bales as compared with 23·5 lakhs in the preceding year.

At the instance of the Central Cotton Committee the research work is being carried on by scholars and improved varieties of cotton have been introduced in different parts of India. Cambodia Cotton has been introduced in Madras, and American Cotton has been introduced in Bombay, the Punjab, and the United provinces. These varieties of cotton can, as the recent experiments tell us, be used profitably for spinning yarns of higher counts. On the suggestion of this committee the Provincial Governments have passed a number of acts with a view to checking adulteration and promoting better marketing. Various other research schemes are being promoted by the Committee whose activities in this connection are financed out of the proceeds of small cess (2 as.) levied upon per bale of cotton used in the Indian mills and exported from India.

In 1942 the Government of India doubled the import duty with a view to creating a separate fund to be devoted to the financing of purchase of Indian cotton on behalf of the Government for the benefit of cotton growers and to the giving of relief to the growers of short-staple cotton.

(*vii*) *Silk*.

Its reference in ancient dramas.

The manufacture of silk was at first unknown to India. In ancient dramas and religious books silk has been described as *chinangsuka*. This shows that it was, at first, imported to India from China. It is said that in Mysore, which produces nearly two-thirds of the total output of Indian silk, the manufacture of silk was introduced by Tipu Sultan who managed to import the seeds from China.

Besides Mysore, there are certain other districts which are important for the production of silk, *e.g.*, (1) Murshibadad, Malda, Rajshahi,

and Birbhum districts of Bengal, (2) Kashmere, (3) Dehra Dun and Pratabgarh in the United Provinces, (4) Bihar, Orissa, (5) the Central Provinces, and (6) the Punjab.

Causes of the decline of silk industry.

The industry is now in a decadent condition. The chief causes of decline of this industry are :—(1) the defective character of the silk-worm and the diseases with which they are afflicted, (2) unscientific system of rearing silk-worm and of hand-reeling and hand-weaving, (3) the fall in foreign demand due to progress of the silk industry in Europe, (4) competition of Japan, China and the United States in the world market, (5) the increasing demand for artificial silk imported from Italy, United Kingdom, Japan and China. To protect this industry from foreign competition the Indian Traiff (Textile Protection) Act of 1934 has imposed protective duties on the import of silk yarn and manufactures. Entry of artifical silk yarn has also been restricted by the imposition of a duty of 25% advalorem along with a minimum specific duty of 3 annas per lb. Under the shelter of this protective tariff the silk industry has immense prospect before it because it can be safely carried on in cottages with the help of famale members and admits of varied workmanship which at once attracts customers and fetches decent prices. The Government of India has also established the Imperial Sericultural Committee which by way of encouragement has sanctioned a grant of Rs. 93,000 to the silk-growing provinces. The said grant has been distributed among several provinces with a view to assisting them in the matter of setting up schemes for development of sericulture. Provision was also made for annual grant of Rs. 1,00,000, for five years ending in March 1940 for the improvement in sericulture. The Government of Bengal has started two Sericultural schools for training students in sericulture. The industry cannot regain its position unless the people of the country are ready to show preference for Indian silk goods.

(*viii*) *Rubber.*

Rubber is chiefly grown in Madras, Coorg, Travancore, Cochin, Mysore and Burma. In 1939-40 the yield of rubber was 3·78 million lbs. India's contribution to the world's demand for rubber is not very great. India exports raw rubber but has to import a huge quantity of manufactured rubber every year. In 1936-37 the value of the import of this manufactured rubber was Rs. 2·1 crores while the value of the export of raw rubber was about Rs. 1·04 crores only. The production

of rubber has been restricted by the International Rubber Restriction Scheme. The Indian Rubber Control Act of 1939 has taken away the restriction and plantation is now permitted. The production of both raw and manufactured rubber has been thus encouraged. Greater attention has been devoted to the manufacture of rubber as a result of the establishment of a manufacturing firm near Calcutta. The Second World War has also given additional stimulus to this industry. With an increase in the output of Indian rubber there has been considerable decline in the import of rubber.

(*ix*) *Oil-seeds.*

Various kinds of oil-seeds are grown on Indian soil. These include sesamum, rape, mustard, castor and cotton seed and groundnut. Of these the cruciferous oil seeds [rape, mustard, etc.) occupied in 1939-40 an area of about 6·11 million acres and yielded an approximate return of 1,021,000 tons of which about 22,000, tons were exported. The area under groundnut is gradually increasing. In 1939-40 groundnut covered an area of 8·2 million acres yielding about 8·4 million tons of which 54,900 tons were exported. The Second World War has adversely affected the fate of this crop ; the continental market to which three-quarters of the crop is sent is now lost. In 1941-42 the total export came down to 404,000 tons. The Government of India has set up a fund for the relief of groundnut cultivators. Groundnut is grown as a rotation crop for cotton and jowar to maintain fertility of soil. Linseed which grows chiefly in the Central Provinces, the United Provinces, Bihar and Orissa has come into prominence as a result of the Ottawa preference. In 1941-42, 256,000 tons of linseed were exported from India. Oil derived from these seeds is used generally for edible purpose and in the manufacture of margarine ; the oil-cakes are used as manure and for cattle food. In recent times India finds many rivals in the foreign market. China, South America and West Africa are now found to compete with India in the oil market and the result is that the Indian exporters cannot command a favourable price for their goods. The Second World War has, by closing the continental market for Indian oil seeds, caused substantial reduction in the export of these seeds. It is high time for India to develop the oil crushing industry so that she can make the best use of her vast resources. It gives much pleasure to learn that a Board of Industrial and Scientific Research has already been set up to undertake research in this direction. His Majesty's Government have also encouraged the cultivation of linseed

by maintaining their buying price at £12-10 f.o.b. per ton and by agreeing to transfer to the Government of India a rebate based on the difference between the agreed price and the prevailing market price. The fund thus created has been entrusted to the Imperial Council of Agricultural Research to be spent in financing schemes which would benefit linseed-growers.

Sec. 2. Drugs and Beverages.

(i) *Opium.*

The production of opium is of great importance inasmuch as the Government derives a large amount of revenue from it. The poppy out of which opium is manufactured grows both in British India and in some native states.

The principal tracts where opium is cultivated are (1) Bihar and some districts in the United Provinces, (2) Indore, Gwalior, Bhupal and some other native states.

The manufacture of opium in British India is a monopoly of the State. It can be produced only under license from some authorised officers of the State. A factory has been established at Gazipur where crude opium is turned into opium that is sold in the market. The export of opium and with it the total output have been reduced considerably on account of the agreement made by the Government of India with the Chinese Government for the suppression of opium traffic with China. The export of opium to the United Kingdom is restricted to medicinal purposes. The export to any other non-Asiatic country is strictly prohibited. Opium is now exported to Burma, Zanzibar, Pemba and Aden and dependencies. In 1938-39 the total value of the export of opium was Rs. 1000 as compared with Rs. 11·2 lakhs in 1932-33. This compulsory reduction in the export of opium has resulted in a decline in the production of this commodity. The internal consumption of opium has also fallen substantially on account of the legislative measures undertaken by the Provincial governments for prohibiting or restricting the consumption of opium. In 1939-40 the total areas under cultivation of opium came down to 7,138 acres as compared with 27,228 acres in 1932-33.

(ii) *Tea.*

The important tea producing areas are Darjeeling and Jalpaiguri in Bengal, the Nilgiris in Madras, Dehra Dun in the United Provinces,

Kangra Valley in the Punjab, Assam, the Choto Nagpur district, Travancore and Cochin. Of these Bengal and Assam contribute as much 80% of the total output. The net out-turn in 1941 was near about 501 million lbs, and the total area under cultivation was 833,200 acres. This industry gives employment to more than 877,000 persons. The labourers are chiefly drawn from Bihar and Orissa and the United Provinces.

The producing areas.

Formerly this industry was almost exclusively managed and financed by Agency firms established in Calcutta but in recent times Indian capitalists and enterprisers are taking increasing interest in the development of this industry.

Management.

The Indians are increasing their consumption of tea but their demand for tea does not cover even 10 per cent of the total output; the rest is exported to foreign countries where the demand is gradually increasing. The home consumption is also increasing because of the activities of the Indian Tea Association to which go the proceeds of a small cess (formerly 12 annas, now Re. 1-6-0 per 100 lbs.) levied since 1903. To secure a fair price for tea a scheme of restriction of production and limitation of export has been adopted with success. Regulation is effected with reference to International Tea Agreement. The export quota is being fixed for every year. The India Tea Control Act has been passed to regulate the production and the marketing of tea. The Second World War has augmented the demand for Indian tea. The price of tea has risen considerably to the great advantage of the industry. The Index number of tea prices stood at 263 in 1942. In 1940-41 the value of tea exported was Rs. 27·73 crores.

(ii-a) *Coffee.*

The industry which was introduced in India is now in a decadent state. The internal consumption has fallen because tea has taken the the place of coffee. Its place in the foreign market has been usurped by cheap coffee exported from Kenya and Brazil. India also is found to import cheap coffee from Java, and Ceylon. Indian coffee is exported principally to the United Kingdom, Norway and France. In 1939-40 India produced 17·4 million lbs. of coffee out of which she exported 168,000 cwts.

Coffee is chiefly grown in Madras, Coorg and Mysore. The total acreage has diminished substantially. An attempt is being made to

revive this industry. In 1935 Coffee Cess Bill was passed which imposed a duty of (formerly 8 annas per cwt. and since June, 1938 Re. 1 per cwt.). The proceeds of this duty are mainly spent for propaganda work with a view to increasing the foreign demand for Indian coffee. In 1942 the Coffee Market Expansion Act was passed. This Act allowed to continue the excise duty on all coffee which a registered estate is allowed by the internal sale-quota to sell in the Indian market and on all coffee released for sale from the surplus pool. In 1941-42 the total export was valued at Rs. 40 lakhs.

(*iii*) *Indigo.*

The early history of the indigo trade.

This is one of the ancient industries of India and its history is as old as the beginning of the Christian era. The East India Company did a great deal in encouraging this industry. Since then this trade was mainly financed by the Europeans who had certain advantages over the native traders. This industry flourished till the introduction of German synthetic indigo which captured the world market on account of its cheapness. At present the total output is near about 5,000 cwt. and the total area under indigo is 37,500 acres. The production is practically confined to the United Provinces, Bengal, Bihar and the Punjab. Bihar plays the prominent part in the export trade. In 1939-40 India exported very small quantity of indigo the value of which did not exceed Rs. 17,000. A large portion of this output is exported to the United Kingdom, Japan, Egypt and Greece. Researches for improving the industry are now being carried on at the Research Institute by the Indigo Research Chemist to the Government of India. In 1918 a cess was levied on the export of indigo with a view to promoting scientific researches on indigo.

(*iv*) *Tobacco.*

The discovery of the important plant is attributed to Columbus.

The general belief is that this very important plant was unknown to India till Columbus discovered it along with the country in which it was grown in abundance. It is the Protuguese traders who introduced this thing into India. India has not taken time to appreciate the utility of this plant and has managed to extend its cultivation so as to occupy the first position among world producers of tobacco. Tobacco is now mainly cultivated in Eastern and Northern Bengal, Bihar, Madras, Bombay, the United

Provinces and Lower Burma. The area under this crop in 1939-40 was estimated at 1,310,000 acres with an outturn of 1,375 million tons, the value of which was about 18 crores of rupees. Though India produces a large quantity of raw tobacco, she is still in her infancy so far as the manufacture of tobacco is concerned. Excepting Madras where the manufacture of this important article has attained considerable importance, no other province has taken the initiative notwithstanding the fact that there is a great field for it. The result has been a great increase in the importation of manufactured tobacco. In recent times there has been an increase in the import on account of revision of duties. In 1941-42 the total import amounted to 15·2 million lbs. valued at Rs. 25·2 lakhs. Efforts are now being made by the Agricultural Research Institute to improve the quality of the tobacco in all possible ways. The production in India of bright flue-cured tobacco suitable for cigarette-making has increased particularly in the country districts of Madras. The India Leaf Tobacco Development Company has encouraged the growth of Virginia tobacco in Madras, United Provinces and Mysore. Again, heavier duties have been levied upon foreign tobacco with a view to encouraging the cultivation and consumption of Indian tobacco.

The export of raw tobacco to the United Kingdom has been increased by the introduction of preferential tariff scheme. In 1941-42 the total export of manufactured and unmanufactured tobacco amounted to about 65·5 million lbs. costing Rs. 220 lakhs. In 1937 legislation was made for the grading and marketing of certain agricultural produce including tobacco. Such gradation will go to extend the market for Indian tobacco. The export on the basis of Agmark grades has been on the increase.

(*v*) *Cinchona.*

The peasantry of India has little or no concern in the cultivation of cinchona. The industry was introduced into India under auspices of the British Government and is the monopoly of the Government. It is an important industry because it helps the production of quinine which is an efficacious medicine for malaria and other diseases. India, however cannot meet her demands for quinine out of the of the total amount of quinine produced here. The import of this article is gradually increasing while there is a decline in the export of cinchona bark. The recent years have witnessed a contraction of cinchona

Production is a monopoly of the State.

bark. In 1933-34 the receipts from the sales of cinchona products amounted to Rs. 2,88,862. Cinchona is chiefly grown in the Nilgiri hills and in Darjeeling and in Mysore and Travancore.

Sec. 3. Principal Minerals.

The importance of minerals in the economic development of a country can never be exaggerated, but all minerals are not equally important. There are some minerals such as coal, iron, petroleum which contribute most to the economic prosperity. India is not poor so far as the deposits of these three kinds of minerals are concerned.

Though rich in mineral wealth India has still to bear the burden of heavy import of foreign minerals. This evil result has been mainly due to the want of metallurgical industries in India and the chief hindrance to the development of such industries in India has been found out to be want of coal and iron ores existing in the vicinity of each other. Attempts, however, are being made to develop the metallurgical industries with a view to making India self-sufficient so far as her requirements in this direction are concerned.

(*i*) *Coal.*

Let us now have a brief survey of the principal minerals of India. Coal stands first both in order of importance and utility. India stands eighth in the world and second in the British Empire in so far as the output of coal is concerned. Most important of all coal districts are Jharia in Bihar and Ranigunj in Bengal. They together contribute near about 72% of the total output in India. The other important coal-fields are those of Giridhi, Daltangunj in Bihar, those at Singarini in Hyderabad, those at Mohapani and Warora in the Central Provinces, and those at Makum in Assam and in the Jhelum district in the Punjab.

The important coal districts.

In 1941 India produced about 29 million tons of coal and its total value was Rs. 9·8 crores. The Indian Railways use almost exclusively Indian coal. But the whole of India's demand for coal is not satisfied by the supply that comes from her mines and large quantity of foreign coal must be imported every year to meet the demand that remains unsatisfied. The Second world War has reduced the import of coal and enabled India to develop her eastern markets. The import

Consumption of coal.

of coal in 1939-40 was valued at Rs. 2·64 lakhs as compared with Rs. 8·15 lakhs in 1938-39. The export of coal expanded greatly. In 1939-40 India exported 20,009,000 tons as compared with 1,341,000 tons in 1938-39. The export of coal should not be encouraged and the coal Mining Committee has rightly emphaized the importance of conserving the coal assets of the country in view of the limited stock of coal reserves.

Import of coals.

There are several difficulties that stand in the way of India's success in this industry. First, the Indian coal is inferior to foreign coal in strength and cannot be economically used in modern machinery. Secondly, when compared with the mines of other countries Indian mines yield the lowest output of coal per head per annum. Thirdly, the shortage of waggons, the increase in working expenditure and the dumping policy of foreign countries are other factors which adversely affect the prospect of the industry.

The Noyce Committee made enquiries and submitted its report recommending (i) the extension of machine-working in mines, (ii) the introduction of a system of loading coal raised direct into the waggons, (iii) granting of a rebate of 37½ per cent. on export of Indian coal, and (iv) the creation of a Grading Board which would certify as to the quality of coal.

In accordance with the recommendations of the Committee, the Government made necessary legislation for the formation of Coal Grading Board and it was constituted in 1926. The Railways and the Port Commissioners accepted the recommendation of 37½ per cent. of rebate and of lower river dues (As. 4 per ton). It shall be noted in this connection that in view of the exhaustible stock of good coal in India the export of coal from India should not be unduly encouraged.

In pursuance of this recommendation of the Coal Mining Committee the Government of India passed in 1939 the Coal Mines Safety (Stowage) Act which provides for the creation of a Board for administration of funds raised by the levy of an excise duty of three annas on coal or soft coke and by an equal levy of customs duty on imported coal or soft coke. The above fund is to be devoted to meet expenses towards granting of stowing materials to owners, agents or managers of coal mines. To give effect to the provisions of the Act the Coal Mines Stowing Board has been constituted. This Board has been functioning satisfactorily with a view to promoting the safety of workers and preventing uneconomic extraction of coal from mines.

Coal Mines Safety Act.

These legislative measures have gone a great way in improving the condition of the industry. Again, the growing industrialisation of India and the decline in the supply of foreign coal account for a remarkable increase in internal consumption. The external demand for coal has expanded on account of loss of eastern markets for Japan and loss of freight advantages for South Africa. All these factors have contributed greatly to the expansion of the coal industry and the consequent increase of profits earned by the mine-owners. In 1944 owing to an increase in the internal demand for coal the collieries had to be worked to the highest capacity. Women workers had to be employed underground in violation of the international regulation prohibiting such employment. Even then the crisis could not be brought under control. A Coal Control Board had to be set up with power to fix the prices at which coal might be sold by the owner of coal mines and to regulate the disposal of supply.

The coal control scheme of the Government has made it possible for the consumers to get coal at fixed prices and checked black marketing and profiteering to a great extent. An administrative organisation consisting a coal Commissioner and Region coal controllers has been functioning satisfactorily and the entire responsibility has fallen in the hands of the Governmeut. The scheme has also encouraged an increase in output by the grant of bonuses on increased output and exempting the operation of excess profit tax. Other activities of the Government in aiding this industry include the grant of a special depreciation allowance to the colliery owners and the procurement of machines from the U. S. A.

(*ii*) *Gold.*

Gold is another important metal that India produces. India's contribution to the world's production was 350,000 ounces valued at Rs. 3·27 crores in 1941. The greater part of this output comes from the the Kolar fields in Mysore ; the Nizam's mine at Hutti in Hyderabad comes next in importance. Small quantities are supplied by the Central Provinces, United Provinces and the Punjab. A negligible quantity of gold is also raised by dredging operations on the Irrawady river.

This metal is generally used in India for ornamental purposes. It can be profitably utilised in coinage as it has almost all the characteristics of good money. But unfortunately for India the free coinage of this metal is not allowed by the Government. India exports a large

quantity of gold every year. In 1938-39 the net export of gold from India on private account was valued at Rs. 13·05 crores as compared with Rs. 27·85 crores in 1936-37. The export of this metal has increased since 1931-32 and the total export for nine years ending with 1939-40 amounted to 43·3 million ounces valued at Rs. 375·7 crores. The recent years have witnessed an abnormal rise in the price of this metal. This rise was due partly to inflation of currency and partly to speculative dealings. The price of a tola of gold rose up to Rs. 96-4 on the 26th April, 1943.

(*iii*) *Silver.*

Silver is another important metal that India requires in large quantity, The demand for this metal is greater than that of gold because it is used both for the purposes of making ornaments and coining rupees ; but the quantity of silver produced in India is too small to meet this demand. It is only available in Upper Burma. It is obtained as a by-product of the smelting of the Lead-Zinc ores of Bawdin. In 1936 the total production was about 6 million ounces valued at about Rs. 6·8 million. In 1938-39 the net import of silver on private account was valued at Rs. 1·72 crores. During recent years the price of this metal has risen on account of an outburst of speculation which followed the suspension of sales by the Reserve Bank.

(*iv*) *Iron.*

Nature has favoured India with large deposits of valuable iron ores ; in respect of the reserve of Iron ores India occupies the second position in the British Empire but the absence of coal and limestone near the iron districts stands in the way of their being worked successfully. This difficulty of working the iron ores has been greatly felt in Madras where deposits of best iron ores have been found. On the other hand the existence of coal-fields in the Ranigunj district has facilitated the working of the iron ores located there with the result that the output of iron is gradually increasing in that district. Large deposits of iron are to be found in Singhbhum and the Keonjhar, Bonai and Maurbhanj States of Orissa. Considerable deposits of iron ores have been discovered in the Mysore State and are being extracted by the works at Bhadravati. Several newly established Iron Companies such as the

'The Tata Iron and Steel Works', 'The Indian Iron and Steel Company', and 'Steel Corporation of Bengal' and 'The Mysore Iron and Steel Works' at Bhadravati are doing a great deal in developing this industry of India and have been encouraged by military requirements to extend their scale of production ; and it is no exaggeration to say that India will in the near future be in a position to meet her own demand for iron if the Government comes to her help. India is in fact the second largest producer in the British Empire and yields place only to the United Kingdom. In 1939-40 India produced 1,837,636 tons of pig iron, 129,299 tons of iron casting, 1,070,355 tons of Steel ingots, 872,169 tons of semis and 804,469 tons of Steel. This increase in the production of iron has led to steady decline of import of iron. India is now exporting steel and iron to foreign countries. Japan was the principal consumer of Indian *pig iron*. In 1941-42 India exported 521,200 tons of pig iron and 35,300 tons of iron and steel.

Several iron companies.

(*v*) *Lead, Zinc and Copper.*

Lead and Zinc are to be found in abundance in the Upper Burma. The deposits of Bawdin are considerable and contributed as much as 71,060 tons of lead in 1935. The same deposits have been the source of Zinc and India is found to export considerable quantity of Lead and Zinc every year.

The deposits of Bawdin play an important part in the supply of silver which is a by-broduct of the smelting of lead and zinc ores and may in future make an important contribution towards production of sulphuric acid out of lead, silver and zinc sulphides.

Copper is to be found in Southern India and in Rajputana. The present supply of copper comes mainly from the Singhbhum copper belt in Bihar and Orissa. A new plant has been erected at Ghatsila for melting and refining copper. In 1938 India produced copper worth Rs. 4,402,580.

(*vi*) *Petroleum.*

India's contribution to the world's supply of petroleum is insignificant. It does not, roughly speaking, cover even one-tenth of 1 per cent of the total production in the world. Petroleum is to be found in the Digboi fields of Assam, and in the Irrawaddy valley ; some oil

fields also exist in the Punjab and Baluchistan but their share in the supply of the article is very small. In 1938 the total Indian supply was 87 million gallons valued at Rs. 166 lakhs. Before the separation of Burma from India, India could contribute as much as 322·6 million gallons of Petrol. Even then India had to depend upon foreign countries for the supply of petroleum ; with the separation of Burma this dependence on foreign supply has increased to the great inconvenience of the people.

The sources of supply.

(vii) *Kerosene oil.*

Kerosene oil plays an important part in the daily life of the Indians. In the villages people use this oil in their lamp and in towns the poor people who cannot afford to bear the expense of electric light have no other alternative than using it. This oil is supplied by Assam, the Punjab, and Burma but the total supply cannot meet the total demand in India. This is the reason why India has to import a large quantity of this oil from the United States, Borneo, Persia and Russia. The production of kerosene in India and Burma in 1936-37 was 173·8 million gallons. In the same year India had to import 62·21 million gallons of foreign kerosene valued at Rs. 196 lakhs. The export of this article to foreign countries is very insignificant.

Import of Kerosene.

(vii) *Manganese.*

India has a large deposit of Manganese ore but the absence of smelting plants has stood in the way of her success in this industry and led to an export of Manganese ore. Large deposits of Manganese ore are to be found in Bihar ; India can profitably use it in the manufacture of steel and in glass-making but unfortunately for India the steel industry is still in its infancy and large quantity of steel is imported into the country. Since 1930 the production of manganese has declined considerably as a result of the fall in its price. Russia and the Gold Coast have been principal competitors in the supply of manganese at exceptionally low price. The year 1935 witnessed considerable expansion in the production of manganese as a result

Production and export.

of substantial increase in the world demand for iron and steel; since that year production of manganese went on increasing. In 1938 the total production amounted to 967,929 tons as compared with 1 million tons in 1927. A large quantity of manganese is exported every year. In 1939-40 the total export of manganese amounted to 719,000 tons; the United Kingdom and Japan are the principal importers of Indian manganese.

(*ix*) *Salt.*

Various sources of salt.

Like kerosene, salt is another article which the Indians demand every day. The annual consumption of salt in India is estimated at 530 lakhs maunds. It is useful to the rich as well as to the poor. The Government of India controls the supply of salt; salt can be produced either under a license from the Government or by Government agency. Of the total quantity of salt consumed here in India not more than one-third is imported from foreign countries. The supply of indigenous salt comes partly from the factories located in Bombay, Madras, and at the mouth of the Indus, and partly from the Kohat Mines in the Punjab, from the Sambhar Lake in Rajputana and from the lesser Raun of Cutch. In modern times there has been a moderate increase in the production of salt in India. In 1938 India excluding Burma produced 1,539,663 tons of salt while Burma and Eden contributed 38,698 tons and 278,047 tons respectively. Bengal produced only 267 tons of salt in the same year; the damp climate and fresh water stand in the way of salt industry in Bengal and she has to depend upon Liverpool, Germany, Aden, Bombay and Madras for the supply of salt. In 1941-42 the total import came upto 262,000 tons valued at Rs. 98 lakhs.

(*x*) *Mica.*

Its uses.

Mica is another important mineral which India possesses. She is the world's leading producer of sheet mica, and the Second World War has accentuated the demand for it. This mineral is chiefly used in electrical industry, in wireless telegraphy and motor transport and sometimes it is used for aeronautical and ornamental purposes. Sometimes it is a good substitute for glass and various parts of machines are made of it.

The Indian mica is supplied by the mines of Hazaribagh, Moonghyr and Gaya. It is also to be found in the Nellore, Salem and Malabar districts of the Madras Presidency, Travancore, Ajmere Merwara and other parts of Rajputana. India exports mica to England, America and Germany every year. In 1938-39 the total export of mica was valued at Rs. 11·4 millions.

(*xi*) *Saltpetre.*

Saltpetre is to be found in Bihar, United Provinces and the Punjab. It is used in the manufacture of glass, explosive and chemical manures. During the First World War the Indian saltpetre was demanded in huge quantity for munitions and this accounted for the revival of this industry for a number of years. Since the cessation of the war the industry is suffering from an acute depression and the competition of French Potash Salt and Chile Nitrate has reduced the sale of the Indian saltpetre in foreign market. Nevertheless India exports considerable quantities of saltpetre every year, the principal customers being the United kingdom and the United States. In 1941-42 the total export was valued at Rs. 23 lakhs.

Foreign substitutes.

(*xii*) *Precious Stones, Building Stones, Cement and Lime.*

Diamond is the most precious of all stones to be found in India. It is mined in Central India and in the State of Panna. Golconda has been a famous market for this metal from very early days.

Building stones of the best quality are to be found in the Vindhya system of rocks. In the ancient structures stones of this kind were largely used. Other kinds of building stones are to be found in Bombay, Karachi, Jubbulpore and in some parts of Central Provinces. The raw materials for Cement—chalk, limestones and clay—are to be found in Kathiawar, United Provinces, and at Katni and Lakheri (Bundy State, Rajputana). The Indian cement has a bright future and is improving in quality gradually. Lime is produced out of limestone of which India has an abundant stock.

Prospect of Indian cement.

(*xiii*) *Other minerals.*

Ilmenite is another mineral which is to be found in the Black Sand of the beaches near Cape Comorin. *Chromite* is mined in Baluchistan, Mysore and the Singbhum districts of Bihar. Other important minerals

are (i) *Gypsum* in Kashmere, Madras, The Punjab and Rajputana, (ii) *Steatite* in Madras, Bihar, Central India, Mysore and Rajputana, (iii) *Barytes* in Madras and Rajputana, (iv) *Graphite* in Mysore, C. P., Madras and Eastern States, (v) *Tungsten* in Jodhpur State, (vi) *Asbestos* in eastern States, Mysore and Rajputana, (vii) *Felspàr* in Mysore and Rajputana, (viii) *Garnet sand* in Madras, (ix) *Apatite* in Bihar and Madras, and (x) *Sulphur* in Baluchistan. The importance of these minerals in the development of Indian industry can not be ignored.

Sec. 4. Forests : various types of Forests.

The forests area covers about one-tenth of the total area of British India : throughout the vast area we find various types of forest the nature and character of which varies with the climate, topography, soil and rainfall of the different parts. The forests may be conveniently classified under the following groups :—(1) Tropical, (2) Southern Sub-tropical and Temperate forests, (3) The Northern Sub-tropical forests, and (4) Temperate forests.

(1) The Tropical forests again may avail of the following divisions :—

(*a*) *Tropical Wet Evergreen Forests* :—These are to be found in areas of heaviest rainfall, *i.e*, in the western parts of Bombay, Madras, Coorg, Mysore, Cochin and Travancore, in the wetter parts of Bengal and the damper parts of the coastal strip of Orissa.

(*b*) *Tropical Semi-evergreen Forests* :—These grow extensively in Burma, Upper Assam, Northern and Southern Bengal and Orissa.

(*c*) *Tropical Moist Deciduous Forests* :—These are widely distribu-all over the centre and south of India and extend through Bengal and Assam, Bihar and Orissa. The principal trees are teak and sal.

(*d*) *Tropical Dry Deciduous Forests* :—These are to be found throughout the peninsula, in Bombay, Madras, Hyderabad and Central provinces.

(*e*) *Tropical Thorn Forests* :—These are characterised by thorny trees of lower size to be found throughout the western side of upper India where rainfall is scarce.

(*f*) *Tropical Dry Evergreen Forests* :—These are to be found in the Carnatic coast and consist of small thick leaved ever-green trees.

(2) *The Southern Sub-tropical and Temperate Forests* :—These consist of variety of trees, generally 50 to 60 feet high and are to be found in the higher hills—Nilgiris and Palni hills where rainfall is relatively high.

(3) *Northern Sub-tropical Forests* :—These are to be found in the various slopes of the Himalayas. The trees here vary in size and are characterised by many species of evergreen oaks and chestnuts and olive.

(4) *Temperate Forests* :—These are to be found in the eastern Himalayas and consist of fairly dense evergreen trees like oaks and chestnuts, Deodar, Pinus geradiana.

To the above types we may add one more type which we may call the Alpine Forests. These consist of dwarf Rhododendrons, Junipers and many other low trees and shrubs and form an excellent grazing ground for the cattle.

Sec. 5. Economic utility of forests.

Forests play an important part in the economic development of India. Let us have a summary of all the utilities that India derives from her forests :—(1) They help the progress of agriculture by storing rain-water in the soil, by preventing erosion of the upper surface and by keeping the atmosphere sufficiently cool so as to cause the fall of rain when rain-bearing clouds pass over them. (2) They regulate the supply of water, avoid the chances of violent floods and account for a continuity in the flow of rivers. (3) They supply the Indians with timber for building their cottages, fuels for cooking their food and grass and leaves to feed their cattle with. (4) They have been the source of considerable revenue to the State inasmuch as most of the important forests are the property of the States according to the Indian Forests Act of 1878. In 1940-41 the State forests yielded a net revenue of Rs. 2·31 crores. (5) They have contributed to the development of certain industries (technically known as forest industries) such as Resin and Lac Industries as well as paper-making and match-making industries. The annual production of raw lac is about 50,000 tons. (5*a*) The forest produce figures prominently on the export side of India's balance of trade. The sandal wood oil of Mysore is the most valuable forest produce in the world. In 1933-34 net export of forest produce was valued at Rs. 44·2 millions. (6) Forests add to the fertility of the soil by allowing the leaves, in which is stored up food materials, to fall down and to be mixed up with soil. (7) They obstruct the high winds and thus save many areas from the evils that winds often bring with them. (8) They add to the beauty of the country and we cannot deny their æsthetic influence on human minds. (9) Dense forests often serve as natural defence of India and afford shelter to various useful beasts and birds. (10) They make the climate more

The Government derives considerable revenues.

equable and sometimes make for a healthy atmosphere which has special attraction to those who want to recoup their health.

Sec. 6. Management of Forest.

More than one-tenth of the total forest area belongs to the Government of India which has created a separate department known as Forest Department for the administration of forests. This department has classified the state forests into three groups :—(1) Reserved, (2) Protected, (3) Unclassed state forests. The total forest area of British India in 1939-40 was 858,375 square miles of which 72,793 square miles were reserved forest, 6,999 square miles were protected forest and 98,721 square miles were public or unclassed forests. The difference between the first two classes lies in the fact that the control is more stringent in the case of reserved forests than in the case of protected forests. Again, in case of Reserved forests everything is to be done with permission of the authority while in the protected forest anything done will be legal unless it is prohibited. The third class of forests is under less restriction and is meant for the use of the general public. The forest business of the Government of India has been organised and supervised by the member in charge of the Department of Education, Health and Land. The principal officer is known as the Inspector-General of Forests.

Classification of State forests.

Each province is divided into one or more Forest circles each in charge of a Conservator of Forest. Each circle is divided into a number of Divisions each in charge of a member of the Imperial or Provincial Forest Service. Each Division contains a number of Rangers each under the charge of a Forest Ranger. With the introduction of Provincial autonomy in 1937 the Forests have been included in the schedule of Provincial subjects and the various provincial governments have been building up new provincial forest services to take the place of Indian Forest Services.

Sec. 7. Backwardness of Forest industry.

The backwardness of the forest industry has been due to the following causes :—

(1) The research-work has not been carried on to a large extent so as to discover the latent properties of many kinds of timber. It is a matter of regret that India with a vast forest area yields a revenue of about Rs. 2·31 crores and provides employment to about 16 lakhs of people while Germany with a much smaller forest area gives employment to about 40 lakhs of people earning more than Rs. 45 crores.

(2) Again, whatever knowledge the Research Institute may have gathered about the properties of certain kinds of timber, it has not taken the trouble of making those properties known to the organisers of commercial undertaking. The result is that the knowledge serves no useful purpose.

(3) The efforts of the Forest Department have been concentrated in the protection and development of forest and not in the matter of turning it to useful purposes. These efforts can scarcely be described as productive efforts. India with her vast forest area cannot meet her own demand for timber and has to import annually large quantities of timber. In 1939-40 the value of the import of timber was Rs. 2·86 crores.

(5) The number of persons employed in the Forest Department is not sufficient to administer the Department satisfactorily.

(5) Trees of the same kinds are scattered over a large area and cannot for that reason be profitably utilized for commercial purposes.

(6) Want of improved means of communication hampers the speedy exploitation of forest resources.

(7) Want of a closer co-ordination between the Forest Department and the Department of Agriculture has retarded the progress of this industry.

Sec. 8. Suggested remedies.

The administration of the Indian forest may be improved in the following ways :—(i) The control of forests should be vested in a single officer : such concentration of power will surely bring a keen sense of responsibility in the management of the forest. (ii) There should be an increase in the number of staff employed to manage the forest. (iii) Efforts should be made to classify forest areas into a major division and a minor division, the former including the commercial forest and the latter containing the fuels and other kinds of less important trees. (iv) The art of afforestation should follow a systematic principle. Trees having the same or similar properties should be grown in sufficient quantity in one definite area so that they may be utilised commercially. (v) The Forest Department should have some connection with the Department of Agriculture and serve as a handmaid of agriculture. To promote closer co-ordination between agriculture and forestry all newly recruited forest officers should go through short courses at the agricultural colleges. (vi) Appointment in each Province of a forest utilisation officer whose main function would be to develop forest industries. (vii) Adequate provision must be made for the training of officers and for their recruitment.

Sec. 9. Forest Education.

The importance of the forest education on a national basis was urged by Sir Dietrich Brandis, the first Inspector-General of Forests in the memorandum submitted by him to the Government of India in 1877. The year that followed witnessed the foundation of a Forest School at Dehra Dun for the training of forest-rangers. The responsibility in the matter came to be shared by a daughter college opened at Coimbatore in the year 1912. The latter college was, how ever, closed with effect from the first July, 1939 and the entire responsibility has now fallen upon the old Dehra Dun School which is now called the Indian Forest Ranger College.

With the introduction reformed constitution which transferred the administration of Forests to the provinces, each provincial government has been building up its own Superior Forest Service and a new Forest College known as the Indian Forest College has been organised at New Forest in the Forest Research Institute Building to provide the probationers for the Provincial Forest Services with necessary training. This new college has been equipped with lecture and common rooms and biological and chemical laboratories and can enjoy in common the Central Library, museums and herbarian laboratories of the Forest Research Institute.

Research Institute.

The Forest Research Institute which was formerly opened on the Chandbagh Estate, Dehra Dun and subsequently shifted to Kaulagarh Estate (New Forest) is at present working in conjunction with Indian Forest College under the same roof. The Institute is under the administrative control of of the Inspector-General of Forests who is also its president. There are five main branches of research work, namely Silviculture, Forest Botany, Utilisation, Entomology and Chemistry. The Institute has been functioning on scientific lines and the industrial aspect of modern Forests owes much to its untiring efforts.

Sec. 10. Post-war reconstruction and Forest.

The forest policy of the government requires considerable remodelling in the post-war reconstruction in view of the intensive demand for timber for building purposes and fuel. The dependence upon foreign supply is not at all desirable. Each province should attempt to develop its own resources and this will mean employment for the poor people and provide them with cheap timber in the neighbourhood. Again, private ownership should not be encouraged and all forests should be brought under state control so that management of forest may follow a scientific line.

Sec. 11. Flora and Fauna.

By Flora we mean the vegetable kindgom containing various kinds of plants which supply people with food and the industries with raw materials. The difference in climatic and geological conditions has been in a way responsible for the production of different kinds of plants in the different parts of India. Herein you will find the products of the tropical, sub-tropical, and temperate zones. Within the tropical products we can include rice, jute, sugarcane, cinchona, coffee, etc. The principal sub-tropical products are cotton, tea, opium and tobacco, and the products of the temperate zones include wheat, barley, potato, etc.

The vegetable kingdom of India.

The Fauna of a country represents the animal kingdom. This animal kingdom which contains about one-third of the world's cattle population gives us varieties of animals both wild and domestic. The animals of the latter class are from the economic point of view more useful than those of former class. It will serve our purpose better therefore, to have a discussion about the principal kinds of domestic animals which include bullocks, buffaloes, cows, horses, camels, goats and sheep. Of these animals bullocks and buffalloes render a great assistance in the cultivation of the soil and their importance in an agricultural country like India can never be exaggerated : but in comparison with other countries of the world the number of cattle per acre is the lowest in India. In India the number is 67 per 100 acres while U. S. A. has 80 per 100 acres. The number of cattle in British India is more than 15 crores. Again, the number is gradually decreasing with the result that the agriculturists are suffering a great deal for want of adequate supply of agricultural live-stock. Several causes have been responsible for this insufficient supply and deterioration of cattle :—(1) want of efficient breeders. In former times many bulls were dedicated to gods and these used to serve as good breeders. But with the spread of civilisation the religious spirit that prompted men to dedicate bulls to gods is fast disappearing. (2) Slaughter of prime cows has in a great measure checked the increase of cattle. (3) Again, the best cattle that can serve as efficient breeders are exported to foreign countries to satisfy the demand for meat in those places. In 1938-39 India exported animals worth Rs. 823,000. The frequent occurrence of famines ha its effect upon the stock of cattle. Again, whatever stock of cattle India has, they are generally less efficient in comparison with those of other countries and this inefficiency is due partly to want of proper food and nourishment and partly to want of scientific knowledge with regard to proper rearing and breeding of cattle. Several

The Fauna means the animal Kingdom.

remedies have been suggested. They may be briefly described thus ;—

(1) The establishment of Civil Veterinary Department can solve the problem of breeding to some extent. Each province is found to maintain such department. After prolonged research it has succeded in discovering that the best method of breeding would be to breed inferior cattle by the best of their own class. Many experimental farms have been opened under the patronage of this department with the result that the demand for good breeders is being met to a certain extent ; but still the number of such farms is too insufficient to meet the whole demand. The Viceroy's "Gift" Bull system has given impetus to cattle-improvement. The Imperial Cattle Breeding Farm at Karnel has enabled the cattle work to be carried out on a scale not possible at Pusa.

(2) Next with regard to the removal of the want of grazing fields the only remedy that we can suggest is the acquisition of certain acres of land wherein the villagers will be allowed to graze their cattle.

(3) With a view to reducing the pressure on the supply of fodder, an attempt should be made to reduce the number of plough cattle and agricultural bullocks.

(4) Fourthly, the difficulty in connection with the slaughter of prime cows and calves can be removed at least to a certain extent provided the Government takes the trouble of imposing heavy license tax on the slaughter of such animals.

(5) Fifthly, the evils that result from want of scientific knowledge can be removed if the Government promotes research work and publishes pamphlets containing information about the proper method of rearing cattle and of eradicating the diseases that often attack them and manages to have these pamphlets distributed among the villagers. The Imperial Veterinary Institute of Mukteswar in the United Provinces has been the Chief Centre of research and has been manufacturing large quantities of sera and vaccines for the use of the provincial departments.

(6) Modern veterinary researches have found out vaccines for the control of rinderpest. Efforts should be made to popularise the use of vaccines for the improvement of live-stock.

Sec. 12. Pisciculture.

In India fish is an important food inasmuch as people of the various parts are accustomed to take fish as their regular item of diet.

Utility of fish.

The supply of fish is not abundant and the price of fish is sometimes very high. This insufficiency in the supply of fish is due not to want of sources but to the inefficient

manner in which the industry is carried on. This industry is practically in the hands of a class of people whose illiteracy and conservatism stand in the way of the its development. Attempt has been made by the Provincial Governments to improve the condition of this industry by establshing Fisheries Departments in Bengal, Madras, Bihar and Orissa and by promoting co-operative organisation among persons engaged in this industry. The Madras Government has made serious efforts for the improvement of this industry. The activities of the Department are varied and far-reaching and its success is note-worthy in so far as fish-curing and the production of fish-oil are concerned. The fish-oil derived from South Indian shark liver is about ten times richer in Vitamin A than an avarage sample of cod liver oil. In Bengal in spite of the growing demand for fish the Fishery Department was abolished in 1923 on financial grounds. The economic importance of this industry cannot be overlooked in Bengal. Fresh-water mussels are extensively used in Dacca for the manufacture of cheap pearl buttons. To revive this important industry Bengal Government requisitioned the services of Dr. M. Rama Swami Naidu for expert opinion as to the prospects of success of this industry. He reviewed the whole position of the industry and submitted a favourable report. The Government of Bengal has not as yet taken any action on the basis of the report. It is however expected that the old Fishery Department will be revived to put the fishing industry on a more efficient basis.

Sec. 13. The last great war and the Agricultural Situation in India.

In this section we shall have a brief review of the effects of the war on the agricultural situation of India with reference to the production of commercial crops and food-crops. The commercial crops like jute, cotton, groundnut and linseed are raised with reference to internal and external demand and their prices are influenced greatly by the nature of external demand. At the outbreak of the war there was a sharp rise in the prices of commercial crops which continued till the fall of France. Production was stimulated in the meantime but when after the fall of France India was forced to cut off her tradal connection with the continental and Far eastern countries, her export trade was seriously affected. The prices of these crops have come down to unprecedented levels and the cultivators who used to derive substantial profits from this source were faced with large surpluses of these crops. The subsequent years witnessed a reduction in the scale of production and in this way the downward trend of prices was checked.

The food-crops exhibited a trend in the opposite direction. At the outbreak of the war the prices of food-crops did not rise as fast as the

prices of commercial crops. The cultivators, prudent men as they were, discouraged the production of food-crops. They could not foresee that war would spread to the Pacific and the shipping difficulties would affect the supply of food-stuffs from abroad and augment the external demands for Indian food-crops. In 1941-42 the export of wheat from India totalled over 310,000 tons as compared with 80,000 tons in 1939-40. Apart from this external demand there was a substantial increase in the internal demand on account of the military and civil population. The situation assumed a more complex character when as a result of the invasion of Burma by Japan, India came to lose the supply of rice which used to come from Burma. The prices of rice and wheat rose to abnormal heights and but for the central control the prices would have risen still further. This interference of the Central Government in the domain of agriculture which happens to be a provincial subject has been necessitated by the emergency created by the war.

A new department known as the Department of Civil Supplies and food was created in each province with a view to assuming control over supply and distribution of food-stuff and certain raw materials. The ceiling prices of food-stuffs and certain raw materials were fixed.

The Government also appointed a Food-grains Policy Committee with Dr. Gregory as its chairmain to enquire into the food crisis and to submit its report. The committee made the following recommendations :—

(a) (*i*) India should restrict her export of food-stuffs and increase her imports with a view to creating a central food grains reserve of not less than 500,000 tons. (*ii*) The United Nations should be requested to export food-stuffs to India to the extent of million tons.

(b) The hoarders of food-stuffs should be induced to part with their stock and precious metals should be made available for that purpose.

(c) Supply of agricultural implements should be increased with a view to increasing the supply of food-crops.

(d) There should be complete central control over the supply and distribution of food-stuffs.

(e) "Grow more food" Campaign should be launched in the full force.

(f) Rationing should be introduced in all big Cities.

(g) Restriction already imposed in Madras on the milling of rice should be extended to other provinces.

The Grow-more-food campaign of the Government found support from the provinces with the result that the area of food-crops increased in 1942-43. The area under non-food crops was diverted to the production of food under the aid and auspices of the Government. The Provinces received substantial financial assistance from the Central Government for placing the campaign on sound footing.

An agricultural Production Adviser has been appointed. Training of biochemists has been encouraged. A fertilizer mission has been invited from the United Kingdom in order to find out the scope for producing chemical fertilizers in India. The government is going to establish a Fertilizer Industry in order to produce Sulphate of Ammonia. The government has acquired lands for the production of vegetables. Certain piggeries and poultry farms have been opened.

Sec. 14. Food crisis :—its causes and effects.

The year 1943 witnessed a food crisis in all countries involved in the war but the crisis took a serious turn in India. It is interesting to have an account of the causes which were responsible for the crisis in India. (1) The principal cause was the fall of Burma in Japanese hand and the consequent loss of import of Burma rice which figured prominently in the pre-war import. (2) The imminent apprehension of Japanese invasion brought into existence the 'denial policy' which involved the removal of food-stuffs from Bengal and other provinces where the chance of invasion was great. (3) The accumulation of stocks of food-stuffs on private account complicated the situation. (4) Failure of crops in certain rice-producing districts over which the Cyclone swept in October, 1942. (5) The demand for food-stuffs incresed substantially on account of increased consumption by the civil and military population. (6) The inflationary policy led to phenomenal rise of prices of food-stuff but the per capita income did not rise proportionately. (7) Interprovincial restriction on the transfer of food-stuffs and the shortage of waggons which could carry food-stuffs from the surplus area to the deficit area added complexity to the situation. (8) The bungling of the authority in charge of the food supply and their utter failure to bring the situation under control aggravated the crisis. (9) The unscrupulous attempt of the dealers to raise the price by witholding supply was another important factor which stood in the way of solution of the problem.

All the provinces had the bitter experience of this crisis but the crisis had its worst effect in Bengal, Madras, Bombay, Cochin and Travencore where relief measures undertaken on public and private account failed to save human life and deaths from starvation and diseases were too numerous to be recorded.

Questions and Answers

Q. 1. Locate the following crops and indicate the climate and other conditions which favour the growth—in the particular localities—wheat, cotton, jute and rice. (C. U. 1911).

Ans. *See*—Secs. on those topics.

Q. 2. Locate the following mining industries.
Coal, iron, gold. (C. U. 1911).

Ans. *See*—Secs. on Principal minerals.

Q. 3. Name the principal agricultural and mineral products of India, giving approximately the value of exports of five of the former and two of the latter. What are the countries of their importation ? What is the necessity of importing coal into India when she produces it in sufficent quantities to satisfy all home requirements. (C. U. 1921).

Ans. *See*—Sec. on rice, wheat, jute, cotton, tea, and also Sec. on coal.

Q. 4. Locate the chief mining industries of India. Examine the effects of the development of mining industries by (a) the European and (b) the Indian capital and enterprise. (C. U. 1921).

Ans. *See*—Sec. on mining industries such as coal, iron, gold, etc.

Hints.—The economic effects .—

(a) The exploitation of the resources of India—the profits go to the pocket of the foreigners—the Indians only get their wages—the loss is tremendous in gold mining as it is the most precious of all metals and the source is exhaustible—the Indians get no training as they are scarcely employed to hold any post of responsibility.

(b) Profits will remain in the hands of the Indians. The material conditions will be improved by the proper utilisation of the mining resources—the capital will find investment—the Indians will learn to take risks boldly. People will get training in industries. The Indians will hold important posts.

Q. 5. Give an idea of the principal minerals of India with reference to their location and distribution.

Ans. *See*—Sec. on Mineral products.

Q. 6. Mention the chief food-crops and the chief textile crops of India. To what countries are they principally exported.

Ans. *See*—Secs. on rice, wheat, sugar, jute and cotton.

Q. 7. State the regional distribution of the more important of the commercial crops of India. Indicate briefly the importance of such crops in the foreign trade of India. (C. U. 1930).

Ans. *See*—Q. 6.

Q. 8. Give an account of the forest policy of the Government of India. Discuss in this connection the importance of forests in the economic life of India. (C. U. 1929).

Ans. *See*—Sec. 4.

Q. 9. Discuss the forest policy of the Government of India. Examine the importance of forests in the economic life of the nation. (C. U. 1933).

Ans. *See*—Sec. 4.

Q. 10. Give an account of the chief mineral resources of India and point out their utility for its industrial development. (C. U. 1936).

Ans. *See*—Sec. on mineral products.

Q. 11. Discuss the merits and demerits of the various measures that have been suggested in recent years for the control of raw jute prices. (C. U. 1942).

Ans. *See*—Sec. 1 (v).

CHAPTER IV

ECONOMIC CONDITION

Sec. 1. Causes of Poverty of the Indians.

An enquiry into the economic condition of the people of India will at once lead to the discovery of one indisputable fact, namely, the appalling poverty of the Indians. The income of the Indians is too scanty to provide them with the necessaries of life and they pass their days in misery which knows no bounds. There are various causes which account for their extreme poverty. First, people in India are of spiritualistic disposition and their religions teach them that real

Spiritualistic disposition.

happiness lies not in struggling for the satisfaction of wants but in the curtailment of those wants. Evidently, this temperament of the people is inimical to material progress and accounts in a way for the backwardness of the Indians in the sphere of industry. The next important cause of poverty is the contempt for manual labour. The people belonging to the higher classes are very conservative and will prefer starvation to the acceptance of a job which involves manual exertions. The system of education is also defective and does not teach people the dignity of labour. The result is that when they fail

Defective system of education.

to succeed in the few learned professions, their education brings them nothing but disappointment. There are pernicious social customs and institutions which affect seriously the economic well-being of the people. People cannot give up their customary habit of giving alms to those who may approach them and do not even care to enquire whether the candidates really deserve the favour they are praying for. This encourages idleness and we find that the number of professional beggars is increasing rapidly. The anti-economic custom which denounces the economic activities of women and makes them entirely dependent upon the male members for subsistence is another cause of poverty. The caste system which promotes class hatred and affects the

The caste system affecting economic freedom.

free mobility of labour from one group to another cannot also bring peace and prosperity in these days of economic freedom. The institution of early marriage leads to needless multiplication of children whom the parents cannot afford to give proper food and clothing. These children who are thus neglected from the very infancy cannot

acquire that efficiency which may bring them prosperity in life. Again, for want of proper nourishment they cannot build their bodies from the very start and consequently fall an easy prey to the ever-increasing attacks of various diseases. There are also pernicious social customs which compel people to spend lavishly during ceremonial occasions even by borrowing large sums of money from the village money-lenders at a high rate of interest. Besides, the spirit of litigation is very predominant among the villagers and accounts for a large portion of their unproductive debt. Another aggravating cause of Indian poverty is the inability of the people to make the best use of their humble income by regulating their expenditure in a manner which in the long run must add to their efficiency. Another important cause of poverty is the predominance of agriculture which is governed by the law of Diminishing Return. The prosperity of an agricultural country is uncertain and slow as it depends more upon Nature than upon human exertion. The extent of an average holding which works out at about 6 acres for an agricultural family of 5 members can scarcely afford to maintain them in ordinary comfort. The few cottage industries which once flourished can now scarcely hold their own in their struggle with the machine industries. The village artisans have been thrown out of employment and the agriculturists find no profitable occupation to supplement their income. This is what makes the economic position of the Indians more miserable and complicates the problem of unemployment in India.

Lavish expenditure.

The inequitable method of distribution is another cause of Indian poverty but the inefficient method of production is a more important cause. Loveday in his "History and Economics of Indian famines" says, "Poverty of England, America or Germany is a question of distribution of wealth. In India it is a question of production."

The indifferent attitude of the Government towards industry and the defective Tariff policy which they followed till recent times affected seriously the fortunes of the poor and helpless Indians. Again, the exploitation of India's resources by foreign capitalists means an economic loss which is almost irreparable. The Government is also blamed for its heavy imposition of taxes for the maintenance of a defective and top-heavy system of administration which involves the payment every year of huge sums of money as home-charges some portion of which has been described by the patriots of India as a drain for which India gets nothing in return.

Indifferent attitude of Govt. and defective Tariff policy.

Sec. 2. Agriculture—An important industry : its characteristics.

India is mainly an agricultural country. Almost 80% of the people are in intimate touch with this industry. The illiteracy of the population and the poverty of the Indians stand in the way of industrial success. We are not, however, justified in saying that India has no prospect for industrial success before it.

India is mainly an agricultural country.

Again, so far as the agricultural condition of the country is concerned we cannot say that India has reached the final stage of progress. There is much to be done as yet. Countries like U. S. A., Japan and Egypt yield larger output per acre than India. The method of cultivation is primitive. The Indian agriculturists are not acquainted with the up-to date methods which require the utilisation of efficient machinery. This lack of development has been due partly to chronic ignorance and mainly to the indebtedness of the agricultural population.

Agriculture is still undeveloped.

The development of Indian agriculture will have its influence upon the prosperity of the Indians. It will cheapen the prices of articles and thus confer immense benefit upon the people who are mainly poor. It will increase the foreign trade and make other nations much more dependent upon India for the supply of food-stuffs and raw materials. The manufacturing industries will be in a position to produce articles with a lower cost of production and thus check the importation of cheap foreign goods.

The agricultural prosperity of India will bring a great advantage to the Government as well. The Railways will earn higher revenues on account of increase in commerce. The revenues derived from land, stamps and customs will also go on increasing. The favourable balance of trade that is likely to be associated with such a prosperity will facilitate the payment of what is known as Home charges.

The Indian agriculture exhibits the following characteristics.

(i) The Indian agriculture is extremely backward when compared with that of other countries. The yield per acre of the principal crops—rice, sugarcane, cotton and wheat—is very low.

(ii) The mode of cultivation is a primitive one ; scientific process of cultivation cannot be conveniently introduced on account of the sub-division and fragmentation of the holdings. The Agricultural Researches have not as yet achieved noteworthy progress.

(iii) The outlook of the agriculturist is narrow and does not make for progressive cultivation.

(iv) The characteristic sub-division and fragmentation lead to the creation of uneconomic holdings which are unfit for the application of scientific process.

(v) The existence of cultivable waste lands which requires investment of good deal of capital and interprise is another feature. If these waste lands are brought under cultivation India will be in a position to feed her growing population.

(vi) The tillers of the soil have seldom any proprietory interest threin. The village Mahajans have managed to deprive the agriculturists of their title to lands and reduced them to the position of landless labourers.

(vii) The Indian agriculture has failed to produce balanced diet for people. The food-crops produced lack in nutritional value.

(viii) Absence of adequate provision for irrigation and dependence upon heaven for the supply of water account for failure of crops in many parts of India.

Sec. 3 Drawbacks of Indian Agriculture.

In the preceding section we have dealt with the importance of Indian agriculture. We will now proceed to consider the difficulties that stand in the way of the development of such an industry. These difficulties are many in number and will manifest themselves prominently when we go to discuss the factors of production. Production, we know, cannot be carried on except with the assistance of these four agents, *viz.*, land, labour, capital and organisation. If each of these four agents is free from any defect production cannot but be efficient. Let us now see how agricultural development is being hampered on account of the inherent defects in each of the four agents described above.

(a) Land—The total area of cultivated and uncultivated land in British India as computed for the purpose of agricultural survey is 512·6 million acres of which the net area actually sown with crops is about 210 million acres. The inherent defect that is to be found in this agent is its dryness. The soils are not rich in mineral matters and in consequence, they are less fertile than those of other countries. This character of the soils necessitates adequate supply of water and the application of manure on an extensive scale.

So far as the supply of water which is the most essential requisite

is concerned, India is mainly dependent upon heaven. In case there is a failure of rains one year there is sure to be a failure of crops. Steps are being taken by the Government to remove this evil by means of irrigation but much has to be done in this direction.

The want of mineral properties in the soil requires an investment of sufficient quantity of manures ; but the Indian cultivators suffer a great deal for want of cheap articles that can be profitably used as manures. The cowdung which is recognised as a good fertiliser is chiefly used as fuels by the poor Indians. The exportation of oilseeds from the country generally deprives its land of oil-cakes which contribute greatly to the fertility of the soil.

(b) *Labour*—Next we come to discuss the supply of *labour*. The supply of labour is measured by the number of labourers as well as by their efficiency. Numerically speaking, India has a large supply of this agent of production but the Indian labourers are not as efficient as those of other countries. Their low standard of living and their insanitary habits have their worst effect on their efficiency. They are illiterate and are not familiar with the up-to-date appliances that are used by the western countries in the cultivation of the soil. They are unenterprising, unambitious and conservative. They are improvident and reckless and this accounts for their indebtedness to the moneylenders. They are lacking in initiative and extremely fatalist. We can very well quote the following lines from Prof. Kale's Indian Economics—"Apart from climatic and other factors which go to make labour inefficient, the Indian worker suffers from the lack of sufficient nourishment, of education, training and ambition."

(c) *Capital*—Though Indian agriculture is carried on with antiquated appliances and does not require the investment of large quantity of *capital* yet whatever humble capital it requires can be procured by the cultivators with great difficulty. The Indian labourers are very poor and have no funds with them to invest in land. They are to borrow the amount of capital from the village moneylenders at an exorbitant rate of interest. This capital which they borrow cannot profitably be invested for improving the fertility of the soil ; it is spent in purchasing seeds, agricultural cattle and plough.

Want of capital stands in the way of intensive cultivation which has produced satisfactory result in Japan.

The quantitative production per acre is intimately connected with the nature and quality of seeds sown. The Indian peasants generally do not preserve the best kind of seeds that will increase the output, but, on the other hand, they go on consuming the crops and use rem-

nants and as such the worst portion of the crops as seeds to be sown in the next season. The low productivity of Indian soil is also due to inefficient tillage and the incompetence of the agriculturists to protect their crops from floods, hailstorms, insects, locusts, pests and other natural calamities which affect the agricultural industry.

The cultivation of the soil requires the assistance of agricultural *cattle*. India suffers greatly on account of the want of adequate supply of such cattle. They are of inferior quality and few in number. The Indian peasants have to spend a large portion of their humble capital in purchasing and maintaining the cattle and the services that they obtain from them do not generally remunerate for the expenditure they have incurred.

(*d*) *Organisation*—Another defect that we generally find is the lack of *organisation*. The Indian agriculturists do not as yet know how by means of organisation they can improve their conditions to a very great extent. Organised markets, where the agriculturists can sell their produce are still absent in India. The result is that middlemen are found to cheat the cultivators by offering a price which is much lower than the market price. The increasing association amongst agriculturists to solve agricultural problems, the publication of agricultural pamphlets carrying information about agriculture and the formation of agricultural society on a co-operative basis are still almost absent in this country.

One more important defect that stands against the progress of Indian agriculture is subdivision of land which is very often associated with fragmentation.

Sec. 4. Causes and effects of Sub-division and Fragmentation.

The causes of fragmentation.

Subdivision results in smallness of holding while fragmentation implies that the holding comprises several tiny parcels of land scattered at inconvenient distances one from another. Subdivision and fragmentation have resulted from the following causes *viz.*, (1) The peculiar law of inheritance which provides for distribution of assets among several classes of heirs ; (2) growth of population and the consequent increase in the number of issues, male and female ; (3) absence of industrial occupation aud the decay of the handicrafts which make almost every member of a family absolutely dependent upon the few acres of ancestral land ; (4) agricultural indebtedness which ultimately leads to an alienation in favour of money-lenders of the share which the debtor has in the joint property ; (5) the growth

of individualistic spirit and selfishness which leads to separation among brothers and the consequent division of family property. This fragmentation is a great disadvantage inasmuch as it causes some waste of land and capital and makes production on a large scale almost impossible. It hampers improvement in agriculture, enforces uniformity of cropping and restricts the growing of fodder. As Dr. Mann says, "Fragmentation destroys enterprise, results in an enormous wastage of labour, leads to very large loss of land owing to boundaries, makes it impossible to cultivate holding as would otherwise be possible and prevents the possibility of introducing an outsider with more money as tenant farmer or as purchaser of good agricultural property." It also prevents the agriculturists from adopting scientific processes of cultivation, and makes the cost of fencing prohibitive. Fragmentation may however be defended on certain grounds ; the possession of plots of land in different soil areas suited to the growth of different kinds of crops may not reduce a farmer to a helpless position in case of failure of one particular crop. As the seasons for cultivation of different crops are different, fragmentation gives employment to the labourers for a large number of days.

Subdivision if not carried too far is sometimes defended on the ground that it will create a large class of peasant proprietors who will try their best for the improvement of agriculture and add to economic well-being.

Absence of permanent improvement.

Absence of permanent improvements on lands is one more difficulty which affects agriculture. The Indian agriculturist scarcely makes any attempt to effect any permanent improvement of his holding by excavation of wells, provision of a farm building for himself and his cattle and of permanent fencing for the crops raised. He and his cattle are found to live in the village house situated at a long distance from the field and much time is wasted in transferring their services and great waste occurs in carrying the manure of cowdung from the village site to the distant fields. Again, the holdings are scarcely surrounded by embankments in order to protect them from floods and saline water and absence of permanent drainage system often leads to waterlogging with its consequent evils.

Sec. 5. Rural Industries: How they help the agriculturists.

The absolute dependence upon agriculture is one of the causes of poverty of the Indian peasants. Agriculture generally requires their assistance only for three months and for the rest of the year they have

no work to do. In Japan, France, Germany and Italy there are important industries which can give employment to the farmers when they have no work in the field to do. In India the supplementary industries that still survive can scarcely employ the vast population of India. Let us have a review of the important rural industries and their possibilities.

(i) *Dairy-keeping* :—Dairy-keeping can serve as a spare-time occupation which the agriculturists may take to in order to improve their economic condition. The importance of this industry can never be exaggerated in view of the fact that milk and its products go to add to the health and strength of the population. The problem of milk supply which is one of the acute problems in urban areas will be solved if in the neighbouring villages the agriculturists start dairies and supply the townfolk with adequate quantity of pure milk. The success of this industry depends upon the milk-yielding capacity of the cattle which can be improved by means of scientific breeding and proper nourishment. It has been demonstrated by work carried out by the Imperial Institute of Agricultural Research at Pusa that by systematic handling and milking of heifers prior to calving on the line already tested in other countries heifers of Indian dairy breeds can be made to give their milk freely from the start.

Efforts of the Govt.

The Government of India has appreciated the importance of this rural industry and has been maintaining an Institute of Animal Husbandry and Dairying at Bangalore where students are given two years' course for the Indian Dairy Diploma. The matter is also receiving the attention of the Imperial Council of Agricultural Research. Dr. Wright's report on the possibilities of this industry is a valuable contribution on the subject.

The efforts of the agriculturists should be supplemented by the efforts of Government in securing good and efficient breeders and adequate supply of grazing fields so that the industry may attain success in the near future.

(ii) *Khaddar Industry* :—The non-co-operation movement has brought into prominence this cottage industry and it is gaining ground gradually. The agriculturists can profitably apply their idle hours to the spinning on the Charka in their cottages and thus add something to their humble income. This industry does not require an investment of large amount of capital and the poor agriculturists can easily take to it. It requires little strain on human muscles and even the children and women can earn something by spinning. It does not require any

higher degree of skill and intelligence and the ignorant masses can learn the art of spinning within a few days.

The agriculturists can make the best use of their leisure hours by spinning on the Charka. The yarn they produce may be turned into cloth with a little expense and thus they have not to spend a major portion of their humble income in purchasing foreign cloth. The khaddar industry is not dependent upon monsoon conditions and provides the people with a regular source of income. The female members may contribute their mite and the total income of the family may be be thus enhanced. The economic prosperity of the village community which this industry will surely lead to, may cause a revival of many other cottage industries.

There are, however, two difficulties which stand in the way and impede the progress of this industry. First, the cost involved in the production of handspun cloth is higher than the price of mill products. For this reason the poorer people can seldom afford to purchase handspun cloth. Secondly, the rich have greater attraction for fine fabrics and do not give their whole-hearted support to this industry. These two difficulties have to be overcome and the co-operation of the State in this matter is urgently solicited.

(*iii*) *Pottery Industry* :—In India the raw materials of this industry can be had in abundance. China-clays are to be found in Bengal, Bihar, the Punjab, the Central Provinces, Rajputana and Madras. Ball clays and other inferior grades of clays exist in Delhi, the Central Provinces, Bihar and the Punjab. Quartz and Felspars are to be found in India in sufficient quantities. In spite of this abundant supply of raw materials the scale of production is too small. India has been producing ceramic-wares and potteries of various descriptions, but much remains to be done in this industry. The only experimenting and teaching stations for this important industry are Benares and Lahore.

Several other industries may flourish in rural areas. These include poultry-farming, pig-keeping, fruit-growing, mat-making, gur-making, rope-making, toy-making, sericulture, embroidery work, biri-making, rice-milling and husking, oil-pressing, and smithing.

Sec. 6. How to improve Indian Agriculture.

We have already dealt with all the difficulties that stand in the way of India's agricultural development. We shall now suggest certain improvements that can be made in the condition of Indian agriculture. In doing so it is better to start with Dr. Voelker's suggestions which appear to be very exhaustive. In his report to the Government of India Dr. Voelker emphasised the importance of

Dr. Voelker suggests several remedies.

the following remedies—(*i*) Extension of irrigation works, (*ii*) preservation of forests, (*iii*) spread of agricultural education, (*iv*) arrangement for research works, (*v*) introduction of new and up-to-date implements, (*vi*) preservation and distribution of seeds, (*vii*) proper arrangement for the breeding of cattle, (*viii*) advancement of the Takavi loans by the Government. Let us now see how the adoption of each of the means suggested above will lead to the development of Indian agriculture.

(*i*) *Irrigation*—India is a country where the soils are very dry and as such require a large quantity of water to render them fit for cultivation. The rain-waters are uncertain and the absolute dependence upon heaven will frequently lead to the failure of crops. This difficulty can be removed by means of irrigation. The types of irrigation work differ according to the quality of lands to be irrigated. Three types of irrigation works have already been introduced—

Three different types of irrigation works.

(1) Lift works which consist generally of wells from which water is drawn to meet the demand for water for the purpose of cultivation. This system of irrigation prevails in Madras, Bombay, the United Provinces and in the Punjab. (2) The storage works consisting of tanks and reservoirs of water. (3) The river-works or the irrigation canals that have been constructed for this purpose. The canals may be of three different types *viz.*, (*i*) The inundation canals, (*ii*) perennial canals and (*iii*) storage works. The inundation canals are drawn directly from river and obtain water as soon as they are flooded. They are not in a position to supply water throughout the year. The Sukkur Barrage in Sind is a monumental work of this kind and provides a regular supply of water because of the construction of a barrage across the Indus. Perennial canals are constructed by putting a barrage across a river with a permanent flow and diverting its water by means of canals in order to serve the areas to be irrigated. The storage work canals are constructed by building a dam across a valley to store the rain-water during the monsoons. The Government of India is endeavouring to improve the irrigation system but the expenditure that it has incurred in this connection is still very small in comparison with its expenditure in other directions. Besides these Government undertakings, initiative has sometimes been taken by private citizens. The Government has also encouraged such private enterprise by granting Takavi loans and by exempting lands improved by private irrigation from the enchancement of revenue due to such improvement.

The irrigation works opened by the Government have been divided into two classes : (1) major works and (2) minor works. The major

works again, have been classified into (*i*) productive public works and (*ii*) protective works. The former consists of those which are expected to be productive in the long run, while the latter consist of works which have been opened only as protective measure against the occurrence of famines. The Famine Insurance Grant has been generally utilized by the Government in the construction of these major works. The minor works consist of those small irrigation works the maintenance and extension of which have come under Government hands. The Government sometimes keeps account of expenditure and revenue for these works. Since 1921 all irrigation works for which capital accounts are kept have been classified under two heads :—(*i*) productive ; (*ii*) unproductive. There is also a third class which includes minor works for which no capital account is kept.

The total irrigated area in British India is near about one-fifth of the total cultivated area and one half of the total irrigated area of the world. In 1939-40 the total irrigated areas amounted to 55 million acres. The necessity of irrigation is not equally important in all parts of India. There are parts *e.g.*, Bengal and Assam, where the rainfall is almost regular and as such the question of irrigation is not at all important in these provinces. Again, there are parts of India where the soils do not permit the construction of irrigation works. This is the case in Rajputana and such other desert areas of British India. Though the Government of the country has contributed much to the development of irrigation in India, the area protected by private irrigation is larger than that irrigated by the State. There are provinces *e.g.*, Madras, Sind and the Punjab where irrigation is expected to be productive and the Irrigation Commission of 1901-3 recommended the construction of new works in those areas. Again, there are areas such as the Central Provinces, the Deccan district of Bombay where protective irrigation is urgently required. The Government of India has proceeded on the lines recommended by the Irrigation Commission and its expenditure in this connection has been considerably higher in recent years. In recent times the working of the Llyod Barrage canals is giving satisfactory results. The total area irrigated by them was 27,70,000 acres in 1933-34. The Sutlez Valley Works which irrigate a total area of 54 million acres have already been completed at an expense of Rs. 33·31 crores. Another project known as the Cauvery Mettur Project which is expected to improve the irrigation of over a million acres and extend irrigation to a new area of 301,000 acres has received the sanction of the Government. The owners and the occupiers of the soil are liable to pay cost of irrigation and in this way the amount spent by the Government is

Where irrigation is not possible.

realised. The Government also derives certain subsidiary incomes in the shape of tolls for navigation and rents of fisheries. Since the Reforms of 1919 irrigation has been a provincial subject, but when the expenditure to be incurred exceeds Rs. 50 lakhs the sanction of the Government of India is required.

Benefits of irrigation.

The importance of irrigation and its effects on the economic wellbeing of the people can never be exaggerated. Besides yielding considerable revenue to the Government, by way of direct financial gain and increased railway profit it has helped the agriculturists by a regular supply of water and by increasing the productive power of the land. The landholders are also benefited because they can conveniently increase their rent when the productivity of the soil increases. The introduction of irrigation canals in the Punjab has converted a desert into an area of abundant crops and led to an influx of population in those areas. Such colonisation commenced with the construction of the Chenab canal, the Jhelum canal and the Punjab Triple canal. The irriagation works have deferred the occurence of famines and reduced the expenses of famine relief.

Co-operation the people.

In order that the system of irrigation may be improved the co-operation of the people is absolutely necessary. The agriculturists should understand their own duties and should not depend upon government absolutely. They should try to make provision for the supply of water by the construction of tanks and wells ; when they are not in a position to supply the whole fund they should approach the Government which in its turn should lend out money at a lower rate of interest. The progress of irrigation during the last fifty years has been very rapid. Fifty years ago the total area irrigated by the Government was only 10½ million acres and in 1939-40 it came to be over 55 million acres which represent 13·7 per cent. of the area sown. The area benefited by irrigation works yielded in that year crops of the value of Rs. 100·3 crores. The irrigation works have been constructed in areas where rainfall is irregular and uncertain. The Punjab has the largest irrigated area ; the total irrigated area in this province was over 12 million acres. Next come Madras with an area of 75,52,515 acres, the United Provinces with 4,319,137 acres, Sind with 43,36,052 acres. Besides these Government undertakings which cover an area of over 31·8 million acres as described above, the private initiative has irrigated substantially large areas and the total areas under irrigation have now come to be over 51·5 million acres. The total investment of the Government Irrigation works stood at Rs.

153·18 crores, yielding a net revenue of Rs. 8·78 crores 1939-40. This large acreage should not, however, lead to the conclusion that the problem of irrigation has been solved. The problem still remains unsolved. There still remain four great projects, *viz.*, (1) the Sutlez Valley Canals in the Punjab, (2) the Damodar Canal in Bengal, (3) the Sarda-Oudh Canal in the United Provinces and (4) the Cauvery Mettur Project. The Native States of India have in recent years taken steps for improving the system of irrigation and have already given effect to certain important projects. In pursuance of the recommendation of the Industrial Commisssion a Central Bureau of Irrigation has been established for co-ordinating research work in irrrigation matters.

(*ii*) *Preservation of forests* :—Great care should be taken to preserve the Indian forests insmuch as they by regulating the flow of rivers, preventing floods and furnishing springs with a perpetual supply of water form the head works of nature's irrigation scheme. The Government of India has taken upon itself the task of preserving the forests. It has created a Forest Department which is in charge of nearly one-tenth of the total forest area. A closer co-ordination between the Forest Department and the Department of Agriculture is badly needed.

(*iii*) *The spread of agricultural education* :—We have seen that chronic ignorance of the peasants is one of the causes of India's failure in agricultural industry. The Indian peasants are not aware of the up-to-date appliances that can be profitably utilised in agriculture nor have they any knowledge of the best kind of manures which can be applied for improving the quality of the soil. The first step that is to be taken in this connection is to make proper arrangement for the elementary education of the Indian peasants and when this has been done the next step will be to spread agricultural knowledge by the publication of journals containing such knowledge. The existing curricula of study should be remodelled so as to create interest in agriculture and other productive works and inculcate a sense of dignity of labour. The text-book should contain lessons relating to agriculture and industries in which the students are vitally interested. Primary education for boys and girls should be supplemented by a system of adult education in order to achieve satisfactory progress. The education of the masses may be imparted through the agency of magic lantern and cinema shows. The educated people of the rural areas should also lend their helping hand and establish night schools and libraries where the grown-up people may read freely during their leisure hours. Demonstration train may also convey interesting exhibits and improve the knowledge of the agriculturists.

(*iv*) *Arrangement of Research work* :—There should be adequate provision for research work in Indian agriculture. The Government will do well to award scholarships to the students who are trying their utmost to invent new processes of cultivation and new methods of improving the fertility of the soil. Students should be sent abroad to learn the secrets of agricultural success. Research work on soil with particular reference to soil moisture, rain fall absorption, regulation of run-off and soil erosion problems should be promoted by the Imperial Research Council.

(*v*) *Introduction of new and up-to-date implements* :—The productivity of the land depends not only upon the fertility of the soil but also upon the nature and quality of instruments that are used in cultivation. We cannot expect that a peasant working with the help of antiquated appliances will produce as much as will be produced by another peasant working with the best possible kinds of appliances. A steam tractor can cultivate 3000 acres of land per day to the depth of a foot whereas an indigenous plough and a pair of bullocks can scarcely plough two acres per day to a depth of hardly 6 inches. Hence attempts should be made to familiarise the Indian peasants with the up-to-date appliances. The responsibility in this matter should be thrown upon the Agricultural Department and Co-operative Societies. The chief difficulty in this connection is the costliness of these implements which are mostly imported from foreign countries. Production of these implements within the country should be encouraged by means of state-aid and by giving rebate, if necessary, on the import of iron and steel required for their manufacture by indigenous firms.

(*vi*) *Preservation and distribution of seeds* :—The yield per acre is intimately connected with the quality of seeds sown. The Indian peasants do not take care to preserve the best kinds of seed for the next season and the result is that plants which come out of them do not bear suffiicient quantity of crops. Efforts should be made to preserve the best kind of seeds. The Agricultural Department has spared no pains to introduce into general cultivation improved strains of crops and the areas under improved varieties in British India are gradually increasing.

(*vii*) *Proper arrangement for the breeding cattle* :—The agricultural live-stocks of India are generally of inferiror quality. They are feeble and cannot work hard. This evil can be removed by the establishment of breeding farms at different centres. Great improvement can be effected by introducing the enclosure system which prevails in Guzrat. Adequate breeding facilities cannot alone improve the qualities of agricultural cattle. Their inefficiency is also due to ill-

nourishment. The supply of fodder is insufficient and cannot properly feed the comparatively large number of cattle that India has to maintain. The supply can be increased if the Indians follow the Egyptian method of growing fodder and the Government of the country provides further grazing facilities by the adoption of a more sympathetic forest administration. In Napier grass the Bengal Department of Agriculture has found a green crop which yields enormous yield and at the same time contain the best nutrition for agricultural live-stock. The combination of two important bye-products—molasses and *cura* with the addition of lime and protein form the most excellent cake for the stock. Many important researches have gone a great way in improving the character and quality of agricultural live-stock.

(*viii*) *Advancement of Takavi loans* :—The Government with a view to removing this difficulty in regard to credit has made arrangements for the grant of agricultural loans known as Takavi loans. But the illiterate peasants of India who look upon the Government officials with suspicion rarely take advantage of this opportunity.

(*ix*) *Co-operative Credit Societies* :—It is not desirable that people of India should be absolutely dependent upon the Government for the removal of any and every difficulty. The establishment of co-operative credit societies is an indication of a rising sense of self-help among the Indian peasants. The Government also is endeavouring to stimulate the spirit of self-help by conferring certain privileges upon these credit societies. The co-operative credit societies will do yeoman's service by cheapening credit among the poor peasants.

(*x*) *Legislative enactments to prevent Fragmentation of land* :—In the Punjab the efforts of the Co-operative Department in promoting consolidation of holdings were supplemented by the passing of the Consolidation of Holdings Act in 1936. In the Central Provinces a Consolidation of Holdings Act was passed in 1928. The Act authorises the permanent right-holders to combine under cetain conditions in a scheme of consolidation. Many such combinations have been effected since the passing of the Act. Again, subdivision and fragmentation may be prevented by the formation of Co-operative Societies with a view to consolidating scattered holdings. This has been done in the United Provinces, in Madras and in the Baroda State. In the United Provinces the efforts of the co-operative societies have been encourged and compulsion in the matter of consolidation has been introduced by the passing of the Consolidation of Holdings Act in 1939.

(*xi*) *Better Sanitary arrangements and housing* :—Attempt should be made to improve the health and strength of the poor peasants by the

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adoption of both remedial and preventive measures. The local self-governing authorities cannot do the needful in this direction on account of the paucity of funds. The Central Government should co-operate with the Provincial Governments in providing the rural people with cheap and effective medicine and in familiarising the use of indigenous drugs which may sometimes be cheaper and more effective substitutes for costly allopathic medicines. The medical practitioners in the rural areas should also be subsidised by decent grants-in-aid. The people should also try to solve the problem of village sanitation and of housing by co-operative methods.

(*xii*) *Closer contact between the villages and towns* :—Much improvement in agriculture may be effected by bringing the villages in a closer contact with the towns. This will create better marketing facilities and add to rural amenities. To promote this healthy contact the ruling authorities should take immediate steps for improving the means of communication and multiplying the number of post offices which play an important part in the easy and prompt communication of ideas between villages and towns.

(*xiii*) *Better marketing organisation* :—The importance of marketing organisation has been emphasized by the Royal Commission on Agriculture. In the absence of such organisation the isolated agriculturists cannot get fair price for their crops. Better results can be expected if the cultivators are organised into co-operative sale-societies and deposit their crops in the godowns of the societies. These societies will conveniently sell the crops at the highest price, distribute the sale proceeds among the depositors and advance money against the deposits.

(*xiv*) *Application of proper manures* :—The soils of India are gradually losing their fertility and steps should be taken to restore that fertility by the proper application of manures. The use of cow-dug as fuel should be discouraged and this can be more economically used as manure. The peasants should give up their prejudice and use the night-soil which is a good fertilizer. The fertility of the soil may also be improved by the cultivation of leguminous crops in rotation. The use of Amonium Sulphate, Amonium Phosphate, green manures, oil-cakes, fish manures and bone meal should be encouraged. The Agricultural Departments and the Fertilizers Committees should try their utmost in finding out the best kind of manures and furnishing the cultivators with the necessary advice.

(*xv*) *Provision for Reserve Fund and Cattle Insurance* :—The want of a reserve fund to fall back upon in times of famine or failure of

crops is another difficulty which must be overcome. The mortality of cattle which occurs frequently in India means a great handicap and urges a scheme for insurance of cattle by co-operative method. When these have been secured the agricultural distress will be less acute and agricultural industry will proceed on scientific lines.

(*xvi*) *Need for growing more food crops* :—The last Great War meant a dislocation of trade and industries. India has lost many markets in the continent and in the Far East. An urgent change in the Agricultural policy has been called for and the peasants have been asked to produce more crops and to attach greater importance to regional self-sufficiency in the matter of supply of food crops.

Sec. 7. The Activity of Government in relation to Agriculture.

What the Government has done.

Agriculture is the principal industry in India ; the Government of the country should not remain indifferent but should try its best to improve the condition of agriculture in all possible ways. Let us see what the Government has done towards improvement of this industry.

(*i*) The prosperity of the industry is intimately connected with a regular supply of water during the season when crops are sown. The supply of water from heaven is uncertain and irregular. The Government has for that reason to make provision for irrigation. The total acreage irrigated by the Government has no doubt increased, but when we consider the immensity of the need we can say that the Government should increase its expenditure in this direction.

(*ii*) Another important activity of the Government towards improvement of agriculture has reference to preservation of the forest. The Government of India has taken up the task of preserving the forest by creating a forest department.

(*iii*) The spread of agricultural knowledge is another important function which the Government has to perform. With a view to removing the chronic ignorance of the peasants the Provincial Governments have established Departments of Agriculture whose chief function is to find out a general plan of work, diffuse agricultural knowledge, and to supervise all works connected with agriculture. Again, the Government of India and the various Provincial Governments have taken steps to establish laboratories, model farms, and agricultural schools and colleges

at New Delhi, Poona, Cawnpore, Lyallpur, Nagpur, Coimbatore and Mandalay, but their endeavour in this connection is not as yet quite satisfactory. The Government has sometimes taken recourse to broadcasting by means of which daily instructions devised by experts on essential matters of rural and individual economy can be imparted simultaneously to scattered villages.

(*iv*) Facilities have been provided for University education in agriculture and the candidates for the B. Sc. degree are growing in number. Agricultural middle schools have been started in some provinces and practical instructions in agriculture have been introduced in the primary schools. To encourage research work the Government awards scholarships to students who are desirous of going abroad to learn the secrets of agriculture. The Agricultural Departments of the Provincial Governments are carrying on demonstration work and propaganda with a view to familiarising the agriculturists with up-to-date methods of production. An all-India Council known as the Imperial Council of Agricultural Research has been created with a view to promoting and co-ordinating agricultural research throughout India. The Government contributed Rs. 25 lakhs in two years to the Initial Endowment Fund of Rs. 50 lakhs for Research Council as recommended by the Agricultural Commissions. The Government also made an allotment of Rs. 20 lakhs for research on sugar and made provision for an annual grant of Rs. 14 lakhs for five years for the upkeep of the Institute of Sugar Technology at Cawnpore. The Government also passed the Agricultural Produce Cess Act in 1940. The proceeds of the cess imposed under this Act are available to the Imperial Council of Agricultural Research for promoting research work. This Council of Agricultural Research has provided considerable amount of money for the investigation of the possibility of improving cane crushing and boiling plants utilised in the production of sugar in Open Pan system. It has also sanctioned a scheme costing Rs. 2,18,772 for expediting the work of the Bengal Government in regard to commercial rice. It has also provided substantial amount of money for the investigation of the problems of fodder and grain. Considerable amount of money has also been sanctioned for Physical and Chemical researches on soils, for the manufacture of artificial manure and for the control of pests which affect foodgrains. The activities of this Imperial Council have not been fruitless. We find in the market an approved crusher designed to crush one ton of cane per hour. Better qualities of paddy seeds have been discovered and the Governments have taken steps to distribute improved variety of seeds and to familiarise the peasants with artificial

Agricultural researches.

manures and improvements. A kind of grass known as the Napier grass has been found to contain the best nutrition for cattle. The Imperial Government has been maintaining the following other Institutions of all India concern *viz.*, Imperial Institute of Veterinary Research, Muktesar, Imperial Institutes of Animal Husbandry and Dairying, Bangalore and Wellington, Imperial cane-breeding station, Coimbatore.

(*v*) Valuable assistance has been given to the agriculturists by providing facility for the marketing of agricultural produce and by the passing of the standards of Weights Acts, 1939. A marketing section has been recently established under the Imperial Council of Agricultural Research. The Central Government has already appreciated the importance of marketing organisation. The Central Marketing staff has been constituted and this staff has been in collaboration with the Provincial Marketing staffs carrying on its function on the following three lines—(1) investigation work, (2) development work and (3) work on grade standards. On the basis of the report submitted by the Central Marketing Staff the Government of India passed the Agricultural Produce (Grading and Marketing) Act, 1937 in order to promote better grading of agricultural produce. Arrangement has also been made for a Market News Service by means of weekly Broadcast from the Delhi Station of the All-India Radio. This when supplemented by Provincial News Agencies will surely go a great way in standardising the prices of important crops. The necessity of suitable warehouse facilities is keenly felt in India. This should attract the immediate attention of the Marketing organisation and steps should be taken for creation of licensed ware-houses on American model and for the issue of warehouse certificates in order to enable the agriculturists to get loans against such certificates and thus to wait for better prices of their produce.

Standards of Weights Act, 1939

(*vi*) The Government makes provision for a lump sum grant for the establishment of granaries and for buying implements but the grant is too inadequate for the purpose.

(*vii*) The Government has established breeding farms at different centres for the proper breeding of cattle. The Veterinary Colleges have been established and veterinary surgeons have been appointed for the treatment of diseases with which the cattle are generally attacked but there is no substantial progress in this direction.

(*viii*) With the object of solving the problem of agricultural indebtedness arrangement has been made by the Government for the

grant of Takavi loans but provision is too small to solve such a big problem.

(*ix*) The growth of Co-operative Credit Societies has been stimulated by the passing of wholesome legislation and a Co-operative Department has been opened to supervise the affairs of Co-operative Societies.

(*x*) Tenancy laws have been passed with a view to protecting the the poor and illiterate ryots from the oppression of landlords and to giving them some right in the soils.

(*xi*) The Government has imposed export duties on manures, raw materials and foodstuffs when such export affects the agricultural prosperity of India. Import duties have been imposed on wheat, sugar and rice in order to protect the agriculturists against imports of cheap foreign goods.

Appointment of Royal Commission on Agriculture.

(*xii*) The Government appointed a Royal Commission on Indian Agriculture to examine and report upon the condition of Indian agriculture and rural economy and to suggest schemes for improvement of Indian agriculture. In pursuance of the recommendation attempt is now being made to improve the outlook of the peasant. Responsibility in this matter lies with the Government. The provincial governments have been found to take active interest in rural reconstruction and have been aided in this connection with grants from the central government.

Consolidation Holdings Act.

(*xiii*) The Government has passed Consolidation of Holdings Acts with a view to avoiding fragmentation of land.

Settlement of Debt.

(*xiv*) Sincere attempts have been made for reducing the burden of agricultural debt and for easy and convenient settlement of debts with the help of appropriate legislative measures.

(*xv*) Sometimes alienation of land to any person other than the agriculturists have been prevented by statute.

We cannot ignore the efforts of the Central and the Provincial Governments for the improvements of agriculture but the contribution in this connection falls far short of the requirements. In 1939-40 the total expenditure in this sphere was about Rs. 3 crores only.

Sec. 8. Post-war Reconstruction of Agriculture.

The sad record of the year 1943 and the heavy loss of human life can not but lead to the irresistible conclusion that the Indian agriculture does not stand on sound footing and guarantee self-sufficiency in matters of vital importance. A plan for post-war reconstruction must therefore include a scheme for agricultural reconstruction. An increase in the supply of food-crops is urgently needed in order to avoid the repetition of the calamity of 1943 in future. The Imperial Council of Agricultural Research appointed a special Committee to devise a plan for reconstruction of agriculture and the said committee submitted a plan recommending an increase of production by 50 per cent. in the next ten years and by 100 percent in 15 years. To give effect to this plan a capital expenditure of Rs. 1000 crores and a recurring annual expenditure of Rs. 20 crores must be provided for.

The Bombay plan incorporates a scheme for an increase of 130 per cent in production in 15 years with a capital expenditure of Rs. 1243 crores. The desired result cannot be achieved unless an all-round improvement is effected in the system of irrigation and drainage and in the method of cultivation. Greater attention is to be paid to the supply of manure and to the improved quality of seeds and cattle. A short term course for the training of agricultural stuff must be devised and due care should be taken for the distribution of agricultural knowledge. Better marketing facilities must be provided for and organised on co-operative basis.

Sec. 9. Agricultural indebtedness and its causes.

(1) The Indian peasants are over head and ears in debt. There are very many causes that have been responsible for this indebtedness.

The defective credit system.

The most important of these causes is the defective credit system of the country. The agricultural bank is conspicuously absent in this country and the poor peasants have no other alternative than to borrow money at an exorbitant rate of interest from the village money-lenders. This exorbitant rate is charged because the money-lender undertakes the risk of non-payment when he lends money to an improvident agriculturist whose occupation yields an uncertain income.

(2) The next important cause is foreign competition which lowers the price of Indian goods.

(3) Periodical droughts and famines and the diseases with which

the peasants and their cattle are attacked play no less important a part.

(4) An increase in the revenue to be paid by the temporary settled districts has its effect upon agricultural indebtedness.

(5) The improvident habits, bad social customs and litigious character are not less important factors.

(6) Ignorance and conservatism of the people, their ill-health and inefficiency are also responsible for their indebtedness.

(7) The agriculturists have also to repay a large amount of ancestral debt. They do not know their legal position and scrupulously repay all debts of their fore-fathers even when they inherit no property.

(8) The cost of production is higher in India on account of the sub-division and fragmentation of land and the consequent small-scale of production.

(9) The absolute dependence upon agriculture for subsistence, the decline of the cottage industries and absence of subsidiary sources of income make it almost impossible for the Indian peasants to clear their debts when the crops fail.

(10) India has to sell its raw materials in foreign countries and if it fails to adjust its production to total demand both internal and external, the result is overproduction which leads to a fall in prices.

(11) Insecurity of harvest owing to absolute dependence upon heaven for the supply of water and absence of facilities for cheap and easy loans stand in the way of sufficient investment of capital in agriculture and introduction of scientific process of cultivation and thus affect the economic position of the ryots.

(12) Absence of organised market where the agriculturists can sell their crops at suitable prices is another cause of their indebtedness. The agriculturists have little or no idea of the market of the crops they turn out. Sometimes they stipulate during the time of borrowing money to sell their crops at a certain fixed price to Mahajans who reap all the profits that a rise in price may bring them. Besides these unscrupulous Mahajans there are many other brokers and middlemen who manage to purchase the crops from the agriculturists at a price which is much lower than the proper price.

(13) A rise in the standard of living during the war when the price of agricultural crops rose and an attempt to maintain the standard in the days of depression augmented the indebtedness of the agriculturists.

(14) Lastly, artificial rise in the value of rupee as effected in the past by the Government lowered the price of agricultural crops and told heavily upon the fortune of the poor peasants.

As a result of this indebtedness most of the Indian peasants have been deprived of their proprietory interest in the land and the village money-lenders have managed to become the proprietors of the land of their village. This transfer of land from the agriculturists to the money-lenders is a great evil which every Government should try its utmost to remove.

Sec. 10. The Policy of the Government regarding agricultural indebtedness.

The indebtedness of the agriculturists is one of the most intricate problems that deserve immediate solution. An accurate estimate of rural indebtedness is not available. According to the reports of the various banking committees it stood at Rs. 900 crores in 1929 and has considerably increased since then. Sir Edward Maclagan in his note on Agricultural Indebtedness gives the following classifications of measures adopted by Government in this connection :—(i) measures taken to encourage the avoidance of unnecessary debts, (ii) measures for the improvement of civil law in connection with agricultural debts including measures to regulate money-lending, (iii) measures for restricting alienation of land, (iv) measures adopted with a view to providing or maintaining credit or reducing debt, (v) one more measure which we can suggest in this connection consists in conciliation and liquidation of debt.

No accurate estimate of Agricultural indebtedness.

Sir Edward Maclagan's classification of the measures adopted.

Under the first head come all those measures which the Government has undertaken to promote primary education among peasants so that they may clearly understand their rights and responsibilities and regulate their affairs accordingly. The Government has, however, opened postal savings-banks in the rural areas where the agriculturists may deposit their humble savings and avoid debts by withdrawing their savings in years of scarcity.

Under the second class of Government measures is included the Usurious Loans Act which allows the judges to use their discretion with regard to the hard and unconscionable rate of interest. The judges while passing decree may direct a payment by instalment and give the poor agriculturists a fair chance of repaying their debts conveniently. The homesteads of the agriculturists as well as their tools and implements have been exempted from attachment in execution of a money decree against them. In view of the straitened circumstances of people some Provincial Governments have fixed by statute the rates of interest chargeable on secured and unsecured debts. In the Punjab an Act known as the Punjab Regulation of Accounts Act (1930) has been passed. This Act now regulates the business of money-lenders and obliges them to keep regular account books and to provide the debtors with a statement of accounts every six months. This act is intended to check the mal-practices of usurious money-lenders.

The Government of Bengal passed two Acts—The Bengal Agricultural Debtors Act, 1935 and the Bengal Money-lenders Act, 1940. The former Act makes provision for the establishment of Debt Settlement Boards each consisting of a chairman and not more than four other members to be appointed by the local Government. These Boards have also been empowered to declare a debtor insolvent when they are convinced that his debts cannot be reduced to an amount which he will be able to repay within twenty years. The latter Act fixes the maximum rate of interest recoverable on secured and unsecured debts and introduces a system of licensing money-lenders and compels them to keep systematic accounts.

In Madras compulsory scaling down of debts has been authorised by the Madras Agriculturists' Relief Act, 1938. In C. P. the Relief of Indebtedness Act passed in 1939 and in Bombay the Agricultural Debtor's Relief Act passed in 1939 have the same object inview.

The third class of Government measures include legislation restricting alienation of agricultural land. The Punjab Land Alienation Act of 1901 has this object in view. Under this Act the agriculturists are not allowed to transfer their land to any one belonging to non-agricultural classes nor can the latter take an agricultural land in mortgage for more than twenty years. Although this Act has succeeded in restricting the credit, this restriction of credit has not always been beneficial and the agriculturists suffer greatly on that account. Again, the Act has impeded the progress of agriculture in another way. The intelligent townsmen are given little opportunity to use their capital and enterprise for the improvement of agriculture. The Act has

also enhanced the privileges of an agriculturist money-lender who can now charge a heavier rate of interest.

The fourth class of governmental efforts consists in provision of credit by grant of Takavi loans and by encouragement given to the growth of Co-operative Credit Societies.

The Government should follow the examples of Japan and U. S. A. and make provision for substantially large amount to be spent for improvement of agriculture. A large portion of the sum allowed should be spent in rural uplift work, because no amount of research work can produce any tangible result unless the rural people have been made to change their present callous attitude for the better and an attempt is made to bridge the gulf between research worker and the actual cultivator as recommended by Russel-Wright report. The problem of village uplift should receive sympathetic consideration from the Central and Provincial Governments. In recent times several village uplift schemes have been drawn up. Of these Brayne's scheme in the Gurgaon District in the Punjab, Sir Frederick Sykes' scheme in Bombay are important. The Provincial Governments should take keen interest in the matter and prepare schemes in consultation with the Central Government which has already set apart a crore of rupees for this purpose.

Village uplift schemes.

Another fruitful endeavour of the Government in the matter of provision for credit manifests itself in the encouragement of Co-operative Credit Societies.

Sec. 11. Co-operative Credit Movement : its basis.

We have seen above that Co-operative Credit Societies have been established with a view to providing the poor peasants with cheap and easy credit. We shall now discuss the co-operative credit movement in all its various forms. The suggestion of the establishment of the Co-operative Credit Societies of the *Raiffeisen type* came from Mr. F. A. Nicholson who had been asked by the Government of Madras to enquire into and report upon the possibilities of the establishment of agricultural banks in Madras. On the basis of that recommendation many co-operative societies came into existence in several provinces *e. g.*, Madras, Bengal, the United Provinces, and the Punjab.

The suggestion came from F. A. Nicholson.

Credit Societies in India have been based either on the Raiffeisen plan or Schulze Delitsch plan. The Raiffeisen organisation exhibits the following characteristics :—(a) Limited area, (b) unlimited liability, (c) little or no share capital, (d) loans to members, (e) long-term credit and easy instalments of payment, (f) permanent reserve funds to which all profits are credited, (g) democratic and gratuitous administration and (h) moral and material advancement of the members.

Schulze Delitsch organisations have the following characteristics :— (a) More extensive area, (b) prominence of share capital, (c) limited liability, (d) short-term loans, (e) distribution of profit among the members and smaller reserve fund, (f) salaried staff for management and (g) working on business principle.

Need for an Act.

When several such banks or societies were established in different provinces the Government felt the necessity of passing an Act which would take these societies out of the general laws regulating the establishment of ordinary companies and which would make provisions for conferring certain privileges upon the members of such societies. Accordingly, an act was passed in 1904 making detailed provisions for the formation of Co-operative Credit Societies and the nature of business to be transacted by them. Let us now study the important provisions of this Act :—

(1) The Co-operative Credit Societies might be either urban or rural. The societies of which four-fifths of the members were agriculturists were known as rural societies and those which were formed otherwise were called urban societies. The minimum number of member was 10 in each case. The applicants and future members should belong to the same village or town.

(2) The business of these societies was to accumulate funds partly by means of shares, deposits and entrance fees from the members and partly by means of loans from outsiders and to utilise the funds by way of loans to the members at a rate higher than the rate at which money had been borrowed by the societies but still lower than what would have been charged by the village money-lenders.

(3) There was in each Presidency a Registrar of Co-operative Societies who was in charge of those societies and who was entitled to audit the account of the societies. The Government retained the right of wide rule-making powers, of compulsory audit and inspection and of compulsory dissolution of society when necessary.

(4) The urban societies differed from the rural ones both in respect of liabilities of the members and the division of profits amongst them. In rural societies the liability of the members was unlimited while in urban societies the matter was left to the option of the society concerned. Generally, there were limited liabilities in urban societies. Again, in rural societies no provision was made for the distribution of profits among the members. At the end of the year the profits were to be transferred to a Reserve Fund and a bonus might be given when the Reserve Fund had reached a certain figure. In urban societies on the other hand only one-fourth of the profit was to be transferred to the Reserve Fund and the rest was divided among the share-holders. The urban societies had most of the features of co-operative societies which were started in Germany by Schulze Delitzch.

The Act of 1912.—The Act of 1904 was solely concerned with the Co-operative Credit Societies ; but as time went on other co-operative societies of different character made their appearances. Various Central Unions and Central Banks came to finance and control the primary credit societies. An act was, therefore, needed to give recognition to such new societies and to remove the defects of the old Act. The Act of 1912 was accordingly passed. The Act recognised the existence and formation of societies which were other than credit societies. It abolished the distinction that was formerly drawn between urban and rural societies but it retained the characteristic of unlimited liability in the case of credit societies of which the majority of members were cultivators. In case of a society of which the members were registered societies, the liability must be limited. In all other cases it was left to the option of the societies whether they would be orgnised on limited or unlimited liability basis. This Act made provision for the formation of three kinds of Central Societies *viz.*, unions among Co-operative Credit Societies, Central Banks and Provincial Banks and for the distribution of profits in case of credit societies with unlimited liability. The term 'unlimited liability' requires some explanation. It means contributory unlimited liability, that is, when there is a deficit in the engagement of a society to its creditors, this deficit should after a full payment of shares if any, be recoverable by a series of *per capita* levies upon the members up to the extent of their property ; direct proceeding by a creditor against constitutional members being forbidden.

Sec. 12. Fundamental Principles of Co-operation.

Co-operation aims at improving the material conditions of the poor

and isolated persons by their combined efforts. There must be certain fundamental principles upon which co-operative organisations should be based in order that the aims of co-operation may be achieved in the long run. These principles may be stated thus.

Co-operation improves material conditions.

(*a*) The principles of *free association* : co-operative societies should be the outcome of voluntary associations of members. People should not be compelled to form such a society because compulsion cannot make any organisation a success.

(*b*) The principle of *proximity* : The society should be formed by members who live within a particular area. The principle is insisted upon with a view to ensuring intimacy and familiarity among members.

(*c*) The principle of *equality* : The members should enjoy equal status and have the same voice in the affairs of the society.

(*d*) The principle of *solidarity* : The members should stand or fall together. The sense of unity should be strong enough to overcome their personal differences. The members should be conscious of their collective responsibility.

(*e*) The principle of *economy* : The fund of the society should be utilized with the greatest care and caution. The members should be on their guard so that money is not lent out for unproductive purpose against insufficient security.

(*f*) The principle of *peace* : The co-operative societies should not be a militant organisation. Their aim is no doubt to eliminate the money-lenders or middlemen who are sucking the blood of the poor villagers but they should attain their ends in a peaceful way.

Sec. 13. What are the qualities required in co-operators.

The success of co-operative credit societies depends upon the following qualities of their members :—

(*i*) *Honesty* : The success of a co-operative credit society requires an honest dealing between members. No member should conspire with another in making a loan which he honestly believes to be unprofitable and risky.

(*ii*) *intelligence :* The members should understand clearly their duties and responsibilites and that is scarcely possible unless they are intelligent.

(*iii*) *Thrift :* The members must not be extravagant. They should make the best use of money borrowed from society and should never borrow money for unproductive purposes.

(*iv*) *Punctuality :* Great punctuality should be observed in the matter of repayment of debt. Unless this is done the stability of the society will be in danger.

(*v*) *Self-Reliance :* The members should inculcate the spirit of self-reliance and approach the society for loan only when they are quite helpless.

(*vi*) *Fellow-feeling :* The members should treat one another sympathetically and should not bear any grudge against others. They should learn how to sacrifice their own interests for common welfare.

Sec. 14. What the Government has done for Co-operative Societies.

The Government has done a great service to the peasant community by stimulating the establishment of Co-operative Credit Societies. Such a stimulus has been given by the Government by conferring certain privileges upon these societies. The Government has, however, retained the power of controlling the co-operative societies by auditing their accounts and by making necessary laws for their guidance. The following are the privileges granted to the co-operative credit societies.

Privileges of the societies.

(1) Exemption from payment of stamp duties, income taxes, etc.

(2) Summary methods of realising the debts due to the societies.

(3) Entry in the account book of the company is a sufficient evidence for the recovery of money.

(4) They have priority over the claims of other creditors next to land revenue.

(4) The shares are exempted from attachment for the private debts of the shareholders.

Grant of Takavi loans and other helps by Government.

The Government has also been found to grant financial help to new societies. The Government of Bombay has taken a keen interest in the development of Co-operative Societies. With a view to enabling the Provincial Co-operative Bank to raise long-term capital it has proceeded to guarantee a minimum rate of interest payable on debentures issued by the Bank. The Government is also advancing Takavi loans through the agency of co-operative societies and is helping these institutions in all possible ways. The Government has authorised the Reserve Bank of India to open an Agricultural Credit Department and we all know the part which this Department has been playing for giving fillip to the co-operative movement. The Central Government has made a grant of one crore of rupees for village up-lift and it gives us much pleasure to learn that a sum of Rs. 15 lakhs out of this grant has been set apart for stimulating the growth of co-operative movement. The Government has also given grant-in-aid to institutions imparting co-operative training. The amount of financial help rendered by the Government is still insufficient when compared with the total capital of co-operative societies and does not exceed 3 per cent of the total capital invested in these societies. Nevertheless the propaganda work of the Government for popularizing these societies has a value which cannot be measured in in terms of money. Although the success of the co-operative movement has been due to the efforts of the Government, the movement has passed the initial stages and now can do without official patronage. Again, rigid official control over the co-operative organisation hampers the natural growth and kills that spirit of self-reliance on which their success depends. Hence, in modern times we find a tendency towards transfer of control from the Government to the non-official honorary workers. The Central Banking Enquiry Committee recommended that the audit of the accounts of co-operative societies should be made by the District Union composed of affiliated societies within the district. The Madras Government has taken the lead and has already appointed a non-official honorary Registrar. The Government of Bombay has organised the Bombay Central Co-operative Institute which has a non-official President.

Sec. 15. Different kinds of Co-operative Societies.

There are three classes of such societies :—(i) The Primary Societies, (ii) The Central Banks, (iii) The Provincial Banks.

The *primary societies* again may be of various kinds—(1) agricultural, (2) non-agricultural, (3) credit, (4) non-credit.

(i) *Organisation of Primary Societies.* Agricultural credit societies may be formed with a minimum of ten members residing in the same village. The number of members may be increased but it should not exceed one hundred in order that efficiency of administration may be maintained. Residence in the same village is necessary in order to ensure mutual knowledge and control.

Procedure of management.

The liability of the members is unlimited unless permission is obtained from the Government for exemption from this rule. The management of an agricultural society is entrusted to two bodies, namely, a general committee consisting of all the members and a managing committee consisting of five to nine members chosen from among the members of the general committee at its general meeting held annually. The managing committee has to work out the details while the general committee is concerned with the general policy of the societies and has to consider the orders and reports of the registrar and auditors.

Rate of interest charged.

The captital of the society is derived from entrance fee paid by members, deposits from members, share capital if any, surplus assets in the reserve fund of the society and loans and deposits from other societies, from the central financing agencies like the central provincial co-operative banks and from the Government. The fund thus accumulated is lent out to members for three distinct purposes :—(i) productive purposes, (ii) unproductive purposes and (iii) redemption of past debts. The rate of interest charged on these loans is slightly higher than the rate at which money is borrowed by a society and easy instalments are allowed for the repayments of debts. The security demanded is generally personal in character. The borrowing members are generally asked to furnish securities from among the members ; material security in the from of mortgage of land, if not altogether excluded, is rarely demanded in order to enable the poor borrowers to reap the benefits of co-operative credit societies.

All profits of a rural society are generally carried to the reserve fund. In exceptional cases some portion of the profits may be spent for education and for the distribution of limited dividends on share capital where there is any.

The societies have been given summary powers in respect of realisation of arrears and this is a special privilege which they enjoy. In some provinces arrangement has been made for arbitration of disputes arising between a society and its members. This avoids the loss of time and money which a litigation in a civil court involves.

The power of dissolving a society has been vested in a Registrar who can exercise this power after a regular enquiry into the affairs of the society.

Noa-agricultural societies.

The non-agricultural societies are gradually gaining ground although the progress of co-operation in this sphere has not as yet made a headway. Co-operative organisations of village artisans like weavers, carpenters for the purchase of raw materials and sale of finished products are gradually growing in number. People's Banks have been established in many urban areas in Bengal and Bombay to provide the merchants and artisans with short-term loans. At present there are 16760 non-agricultural societies with a membership of 2890,861 ; of these 951 are non-agricultural credit societies. Non-credit organisation both in the agricultural and non-agricultural sphere has manifested itself in the form of societies for various purposes, such as production, housing, insurance, purchase and sale. The productive organisations have succeeded in overcoming the difficulties of small-scale producers to a great extent. Substantial improvement in the method of joint cultivation with the help of up-to-date appliances has been effected by these organisations. These societies are generally organised on limited liability basis. There are several Dairy Societies and Weavers' Societies based on unlimited liability. Dealings with non-members are prohibited except in the case of Purchase and Sale Societies. In Bombay the Government has appreciated the importance of co-operative weaving and is encouraging the Weaving Societies by running Weaving Schools and by establising District Industrial Co-operative Associations at different centres. These associations have been rendering immense service to the weavers by procuring for them raw materials at cheaper price and by selling on their behalf the finished products at better price. Bombay has also taken the lead in the matter of co-operative housing and we find there as many as 99 Housing Societies doing useful work. In some provinces Co-operative Stores have been started and the immense benefit which these stores bring to the consumers will surely go to increase their number in the near future. The employees of big firms and Government servants have sometimes started Co-operative Societies for promoting thrift among the members and for provision of short-term loans on easy terms. In commercial towns the importance of co-operative housing has been recognised and efforts are being made by the Government of Bombay to render financial help to the Building Societies with a view to providing the middle class communities with dwelling houses at a cheaper cost.

Guaranteeing Unions : A number of primary societies may combine

and form banking union, supervising union, or guaranteeing union. Such unions among the co-operative credit societies stimulate the spirit of co-operation and the surplus fund of one is utilised in meeting the demands of others. The management of such unions is in the hands of union committee consisting of representatives of the various member societies. The banking union which has been functioning in the Baroda State may, in addition to financial service, easily undertake the function of supervision over the member banks. This type of union may be conveniently extended elsewhere. A purely supervising union which is to be found in Madras and Bombay functions merely as supervising agency with the help of a paid secretary and a sub-committee. The guaranteeing unions which exist in Burma determine the extent of external borrowing of the member societies and guarantee the loans to be tendered by the Central Bank. They serve as a link between the primary societies and the Central Banks. The Maclagan Committee recommended the creation of such unions. It also emphasised the importance of Central Banks which would help the societies in times of financial difficulty. The efficiency of the supervising and the gnaranteeing unions has been doubted by the Committee on co-operation in Burma and by the Thomas Re-organisation Committee of Bombay.

In 1939-40 there were 521 supervising and guaranteeing unions.

(ii) The *Central Banks* may be of three different types : Capitalist, mixed and pure. The Capitalist Central Banks are like ordinary joint-stock banks dominated by individual shareholders and render financial assistance to the primary societies occasionally. The Mixed Central Banks consist partly of societies and partly of individuals. The influence of these banks on the co-operative societies is immense. The pure Central Banks represent the ideal type of Federal Banks and consist of societies only. The individuals have no place there. These are to be found in Bengal and in the Punjab. In 1940-41 there were 601 Central Banks with a total working capital of Rs. 29·3 crores. These banks derive their capital from the following main sources *viz.* (a) share capital, (b) reserve, (c) deposits and (d) loans. These banks suppply the primary societies with the additional funds required by them. The societies again, deposit their surplus capital with the Central Bank so that the latter may apply the same in meeting the deficiency of the working capital of other societies. The Central Banks sometime act as surpervising agency to supervise the affairs of member societies.

The profits of the Central Bank are partly appropriated to the Reserve fund and the remainder is distributed as dividends to the shareholders.

(iii) The *Provincial Banks* that have been established in several provinces of India bear the same sort of relation with the Central Banks as the latter bear with the individual societies. They supply the Central Banks with funds and offer facilities for discounting and stand as their balancing centres. In some provinces where Central Banks do not exist these provincial banks exhibit a direct relation with the primary societies by rendering financial assistance to them. They bear a close relation with the ordinary Joint-Stock Banks and sometimes lend their surplus capital to these banks so as to finance trade and commerce during the slack season of agriculture. The Joint-Stock Banks, again, help the Provincial Banks with funds they require for supplying the Central Banks and Primary Societies with the requisite amount of capital. Thus we find that a good deal of solidarity of interest exists among the three classes of organisations above. There are as many as 10 Provincial Banks with a total capital of Rs. 13·4 crores.

A table containing the operations of Co-operative Societies in 1937-38.

	Provincial Banks	Central Banks	Agricultral Societies		Non-agri-cultural Societies	
Number	10	599	credit 80,065	non-credit 15641	credit 6003	non-credit 8073
Working Capital						
Share Capital ...	76,69	26475	40317		58798	
Loans and deposits held from						
Members	6,0090	159688	1,3539		8,1395	
Non-members	7390	28297	1,2788		6,1231	
Societies ...			1217		1456	
Provincial or Central Banks ...	34625	34137	156330		11989	
Government ...	2205	3606	890		5425	
Reserve and other funds ...	11193	38742	94683		35053	
Total ...	123172	290955	31,9764		255347	
Loans made during the year to—						
Individulas ...	29037	13514	56461		139965	
Banks and Societies ...	41131	96003	6379		11813	
Loans due by—						
Individuals ...	2683	9357	236651		182303	
Bank and Societies Loans due by Individuals of			11,3649		28241	
which over due ...	59714	186591	8009		6887	
Banks and Societies' Profits	938	3947	5055		6124	

The constitution of these banks is of mixed character. The members generally consist of Individual Shareholders, Co-operative Societies and Central Banks. In Bengal there are no individual shareholders and membership is open to societies, banking unions and the Central Banks which alone can send representatives to the Board of Directors. The Registrar, however can nominate three members from the outside. These banks raise their capital mainly by means of deposits from the affiliated societies as also from the public.

Sec. 16. Number of Co-operative Societies.

The number of co-operative societies in India is going on increasing day by day. The number of agricultural societies is larger than that of other societies. In 1939-40 there were as many as 118,988 agricultural societies with a working capital of about Rs. 37 crores and total membership of 42 lakhs. The corresponding figures for non-agricultural societies were 13,713, Rs. 24 crores and 10 lakhs respectively.

In Bengal there are about 3742 co-operative societies at the present time. These are mainly credit societies. The non-agricultural societies which comprise the weaving societies, the fishermen's societies and milk societies are 3073 in number. This shows that spirit of co-operation is not as yet very keen in these spheres of human endeavour.

Sec. 17. Scope of co-operation in the Field of Agriculture: Benefits from Co-operative organisation.

India is a country where the people are mostly illiterate and conservative. They are found to spend their humble incomes recklessly. Again, they are less enterprising and will not take the trouble of borrowing money from a distant village though money can be had there at a lower rate of interest. A study of these characteristics of the Indians led Mr. Nicholson to prefer the co-operative credit societies to State or Central Banks. The co-operative credit societies have the following advantages :—

(1) Such a society may be formed in villages so that the villagers may be in a position to borrow money in their own village and may not have to go abroad in search of creditors. (2) The villagers who will form such association will know one another and their confidence in the institution will for that reason be stimulated. (3) The villagers will fully appreciate the advantages of such a society and invest their surplus income in it. (4) There will be no necessity for the migration of capital from the village. (5) The members of such a society will generally live in the same village or adjoining villages and will be able to watch whether money borrowed is spent for the purpose for which it

is borrowed. (6) Such societies will help the Government in publishing scientific knowledge regarding agriculture. (7) The co-operative credit societies make it possible for the poor peasants to get loans at a lower rate of interest. They understand the utility of becoming members of such societies and deposit their humble savings in the vault of those societies. The funds that would have remained idle are thus invested to the benefit of the poor agriculturists. In short, the co-operative credit organisation will liberate the poor peasants from the "usurer's yoke."

Co-operative marketing and other forms of Co-operative organisation.

(8) The principles of co-operation may be profitably adopted in other spheres of agriculture. In the sphere of marketing it brings immense profit. The middlemen may be ousted and the agriculturists may by means of co-operative marketing reap the whole fruits of their endeavour. Co-operative organisation may help the agriculturists in procuring better implements, manures and seeds at moderate prices. The principle of co-operation may be applied to insurance of cattle. Consolidation of holding and joint cultivation on a co-operative basis may yield satisfactory results. The agriculturists may also form Consumers' Association and this will enable them to get the articles they require at a cheaper price. Certain provinces have already taken action on these lines. In the Punjab, we find societies for the consolidation of holding. There are cotton sale societies in Bombay, seed societies in Central Provinces and milk societies in Bengal ; these societies are doing useful work and the multiplication of these societies will go to improve the lot of the agriculturists. Greater achievement will be possible if the co-operative department acts in co-ordination with the agricultural and veterinary departments.

Co-operative irrigation.

Co-operative irrigation societies may be conveniently formed to improve the system of irriation by combined effort. In Western Bengal there are about 100 irrigation socities. Co-operation may yield successful results in dairy-keeping and other rural industries in which agriculturists are engaged. The Calcutta Milk Union with which have been affiliated 108 rural societies producing and supplying milk to the distributing centre in Calcutta stands as a monumental institution and speaks of the success which co-operative non-credit organisation can attain. In modern times we also find in certain provinces a tendency towards formation of agricultural non-credit societies for improvement of education and sanitation and for the prevention of diseases in the rural areas. The anti-malarial societies have been formed in many

rural areas. These societies raise money by way of subscription, provide for free medical treatment and thus save many a people from the cruel hands of malaria and kala-azar.

The social, educational, and moral benefits.

(9) Other benefits derived from co-operative societies are social, moral and intellectual in character. The members of such societies have to conduct the detailed works and thus have the facility of gathering some business experience. People forming a co-operative society have honesty of purpose and give up their litigious spirit and extravagant habit. (10) Again, the solidarity of interest and the keen sense of co-operation which form the basis of such organisation make the peasants good and responsible citizens.

Political benefits.

(11) The co-operative organisation brings with it certain political or rather administrative benefits. A spirit of common interests, which such an organisation gives birth to lies at the root of every minor organisation that is to be found in villages for improving their sanitary condition. The Government can easily perform its duties by granting aid to these organisations and the relation so created between the village organisation and the Government is of great political value.

Sec. 18. Multipurpose Societies : should these be Encouraged ?

In India we find different types of co-operative societies with different objects and aspirations. Each society has a distinct object to achieve and is found to concentrate its efforts for the achievement of that object. In recent times successful results which multipurpose societies have achieved in Japan, Austria, Belgium, Saxony and Bavaria have evoked considerable discussion in regard to the re-organisation of credit societies on multipurpose basis. The Uuited Provinces have already taken the lead by making experiment of such multipurpose societies. The matter received careful treatment in the Madras Committee on Co-operation and in the Registrar's Conference (1939). The utility of such a multipurpose society which would aim at solving all the problems of its members by one organisation cannot be ignored. The problem of credit will cease to receive an isolated treatment and will be dealt with many other problems which demand speedy solution. One society will thus be entrusted with the supply of credit, the supply of seeds, manures and bullocks and the marketing of agricultural products. The members, again, will have to owe allegiance to one particular society which will have under control the total resources of the different societies for application on more efficient lines. The financial difficulty, if any, may be removed if these societies form banking unions on the lines rocommended by the agricultural credit department

of the Reserve Bank of India. There will also be considerable economy in the cost of management. In spite of these advantages we cannot ignore the difficulties which such multipurpose societies will bring with them. The multiplicity of purpose will necessarily require in the directorate more efficient men who have intelligence and alertness to manage the multifarious functions of the society. Indeed, there is dearth of such efficient men in India. Again, the multipurpose society must be given a wider range of activities for successful operation of its functions. This extension of area over which such society will operate may eventually destroy that close intimacy among the members, which counts much for success of co-operative movement. Again, such multipurpose societies must work on limited liability basis as they have got to combine their credit functions with non-credit functions and will for that reason fail to attract deposits on easy terms.

Sec. 19. Slow progress of the co-operative movement : its Causes.

Although co-operative movement is gaining ground every year, the rate of progress has not been satisfactory. The number of villages that at present derive the benefit of co-operative societies is exceedingly small. This slow growth of co-operative societies has been attributed to the following causes :—

(1) The illiteracy and conservatism of the villagers which hamper the growth of co-operative spirit among them. (2) Want of self-reliance and increasing dependence upon the Government for the solution of each and every problem. (3) Want of that public spirit which makes a man honest in his dealing with others and generates a keen sense of responsibility in public affairs. Often we find that the funds of co-operative societies are misappropriated by those who are in charge of them. (4) The shortage in the supply of capital which makes it impossible for the credit societies to lend money for a long period of time. (5) Want of publicity of the accounts of such societies which often destroys public confidence in them. (6) Loans are made by these institutions for unproductive purposes to the influential members with the result that the funds available for agricultural purposes are inadequate. (6*a*) Terrible loads of over-due loans occassioned by the fall in agricultual prices and loose scrutiny of loan applications. (6*b*) The success of co-operative movement has been hampered greatly by the ignorance of members and the absence of trained men as office-bearers. The Central Banking Enquiry Committee has emphasized the need of proper co-operative training and recommended the establishment of Provincial Colleges and an All-India

Defects of co-operative organisation.

Co-operative College for the training of officers of the Department. Provision made by the Government in this direction is too inadequate to yield satisfactory results. (7) Want of an All-India institution to co-ordinate the activities of co-operative organisations. Such an institution will lead to greater mobility of capital from one province to another. The surplus fund of one province will be available for making up the deficiency of another.

The international aspect of the question of co-operation was discussed in the Conference which met at Stockholm in 1927. The Conference recommended the establishment of co-operative banks on a uniform basis so that the creation of an International Co-operative Bank might be possible in the near future.

Sec. 20. The Recommendations of the Maclagan Committee.

This committee was appointed in 1914 to enquire into and report upon the co-operative movement in India. The committee emphasised the necessity of a Reserve Fund in the shape of surplus assets. The members should be honest in their dealings and there should be sureties behind all debts. Loans should never be made for speculative purposes. Attempts should be made to encourage thrift and attract long-term deposits by offering higher rates of interest. Stress was laid upon the formation of guaranteeing unions which would serve as a link between the financing agencies and the primary societies and would undertake the supervision of the affairs of the societies. The Committee recommended that there should be original audit undertaken by a staff maintained by the societies and in addition there should be a super-audit by a special government staff. The Committee fully appreciated the usefulness of central and provincial banks and further recommended the establishment of an All India Co-operative Bank which would render financial assistance to the Provincial Banks.

Co-operative organisation has been a provincial subject.

The recommendation of the Committee regarding the establishment of an All-India Co-operative Bank has not as yet been given effect to. The Co-operative Organisations have been placed under the control of the Provincial Government since 1919 and the scheme for an All-India Bank has been thrown in the background. The Provincial Banks have however, adopted the policy of lending capital among themselves and managed to receive financial help from Imperial Bank of India. The newly created Reserve Bank also offers facilities for re-discounting the papers of the Central and Provincial Banks. All these arrangements enable the co-operative societies to reap some of the benefits which the establishment of an All-India

Bank will bring with it, but for closer co-ordination of work between the different provinces and the Indian States an All-India Bank or at least a Central Co-operation Board created on the line recommended by the All-India Co-operative Conference, 1934 is urgently needed.

Sec. 21. Objects of Co-operative Credit Societies: How far the objects have been realised ?

The main object of Co-operative Credit Societies has been from the very beginning of their creation to provide the agriculturists with their much needed credit and thus to save them from the clutches of money-lenders whose usurious policy has caused utter destitution. The authors of the Co-operative Credit Societies Act of 1904 intended by means of legislation to provide a simple machinery whereby the agriculturists will learn to combine and solve the problem of rural audit by combined effort. The object of the Act was to encourage the spirit of self-reliance and promote honest dealings among members who by virtue of their common residence in a particular village must be intimately known to each other. Co-operative Societies have already come to play an important part in the rural economy of India and we can safely say that they have been roughly successful in reducing the hold of usurious money-lenders by ushering in a system of controlled and restricted credit in the rural areas of India. In the matter of reduction or redemption of old debts their minor contribution has been supplemented by the fruitful activities of the Land Mortgage Banks. They have also stimulated investment in land and thereby helped the spread of scientific and more intensive cultivation of land which is urgently necessary to provide the growing population with adequate food and clothing. The educative and moral influences of these institutions cannot be exaggerated. In fact the members constituting a Co-operative Society are found to have an honesty of purpose and merge their individual interest to the common interest of the society.

Objects have been roughly realised.

Defects of the movement.

All these bright features of the Co-oparative Credit Societies should not lead us to conclude that these societies leave nothing more to be desired. In fact the progress of these societies has been very slow and has been restricted to areas where the rainfall is normal. They have not as yet made headway in areas of precarious rainfall. Again, when we study the movement more closely certain prominent defects at once attract our attention and demand immediate removal. These are—inadequacy of funds, bad debts, inefficient management, misappro-

priation of fund, defective audit, unpunctuality of payment, fictitious transanction and strong bureaucratic control.

Sec. 22. Co-operative marketing and its possibilities.

The agriculturists produce crops but they do not even care to know the condition of market and the price which their crops may fetch. They generally stipulate to sell their crops to the mahajans who advance money. These mahajans are shrewd men and will not offer a remunerative price for the crops that they agree to purchase. Those agriculturists who are solvent and carry on production with their own funds may escape the grip of the mahajans but there are many other middlemen who misguide and usurp some portion of the price which their crops might fetch. The result is that the price they get for their crops barely covers the expenses of production. The remedy lies in the adoption of co-operative method. The agriculturists may form among themselves Co-operative Sale Societies which would enable them to eliminate the intermediaries and to enjoy the whole profits themselves. The agriculturists have recently appreciated the utility of these societies and we find today considerable movement for co-operative marketing particularly in Bombay, the Punjab and the Central Provinces. The most successful of these Sale Societies are the Cotton Sale Societies. In 1937-38 there were as many as 702 Purchase and Sale Societies doing useful services. In Bengal the number of Agricultural Purchase and Sale Societies was 73. Among them there are a few important societies concerned with the marketing of jute but these appear to have been handicapped lately by faulty organisation and inefficient management. The principle of co-operative marketing is gradually gaining ground. There are at present many such organisations for the purchase and sale of agricultural products like potatoes, tobacco, paddy, gur and chillies. There is immense prospect for the success of these organisations provided the Government takes step by means of legislative enactments to remove all present obstacles. Legislations of this kind have been passed in some provinces. The Cotton Transport Act has been passed to check adulteration in cotton.

Co-oper-tive sale societies will eliminate the intermediaries.

The question of co-operative marketing has been considered by the various committees and commissions. The Agricultural Commission recommended the appointment of an expert marketing officer under the Agricultural Department for each province while the Central Banking Enquiry Committee proposed the establishment of a Marketing Board having various functions to perform in connection with marketing. The Government of India have based their scheme of marketing

organisation on the lines recommended by the Provincial Economic Conference and have been giving effect to the scheme with the aid of Central and Provincial staffs. At the instance of this organisation several marketing surveys have been initiated and the reports published in regard to these surveys show immense possibilities of development. There are few other problems which deserve careful consideration, connected as they are with the problem of marketing. One of these problems relates to the standardisation of weights and measures. Such standardisation adds greatly to public convenience and goes to extend the market for commodities. The Central Legislature has appreciated the utility of such legislation and passed the Standard of Weight Bill in 1939.

Establishment of warehouses where crops may be stored for sale is another problem that deserves particular attention. The Provincial Governments should at once grant long-term loans to the co-operative societies for erection of warehouses where crops may be stored up in expectation of favourable prices. The grain elevator system may also be profitably introduced inasmuch as it will help greatly in the matter of grading and cleaning of crops and add to the profits of the agriculturists by widening the market for commodities.

Establishment of warehouses.

Sec. 23. Reserve Bank of India and Agricultural Co-operation.

The Reserve Bank of India which now occupies the position of Central Bank has been authorised by statute to purchase, sell and rediscount agricultural bills and promissory notes maturing within nine months and bearing the endorsement of a scheduled bank or a Provincial Co-operative Bank. The object of this provision is to finance seasonal agricultural operations or the marketing of crops. The Reserve Bank has also been authorised to advance money for ninety days to Provincial Co-operative banks and Central Land Mortgage banks against Government paper and certain approved securities. It has opened an Agricultural Credit Department, in order to study all questions of agricultural credit and to furnish the Government with its expert advice. This Department has already submitted several reports of great repute. It is now co-ordinating the operations of the Reserve Bank in regard to Agricultural credit and its relations with the provincial banks. But the condition for granting financial accommodation is too stringent to be of any value. A more wholesome relation has been insisted upon and the Reserve Bank has been asked to participate directly in the financing of agriculture. This popular demand has found no response in view of the recent decisions of the Reserve Bank not to play the role of an apex bank

Statutory Provisions.

supplying normal finance to the Co-operative Provincial Banks and through them to the primary agricultural credit societies. The Statutory Report of the Reserve Bank makes it quite clear that the Bank being a Banker's Bank cannot afford to apply its fund in supplying normal finance to these Co-operative credit agencies and advises the latter to stand on their own legs and depend upon their own resources—a sound advice indeed. But mere advice however salutory, cannot solve the problem of agricultural credit. Steps should be taken to establish a more effective relation between the Reserve Bank and the Co-operative Banks within the limits of prudence by extending the functions of the Agricultural Credit Department of the Reserve Bank.

Sec. 24. Rectification and consolidation of the Co-operative movement.

The defects of the co-operative movement which we have already enumerated in a previous section must be removed in order to ensure its progress. The following suggestions embodied in the Statutory Report of the Reserve Bank deserve immediate attention :—

Suggestions in the statutory report of the Reserve Bank

(1) Overdues and long-term loans should be separated from the short-term loans. Bad debts should be written off from reserves and other funds and the portion which is deemed recoverable should be recovered out of the assets of the members partly by sale of a part of their assets and partly by transferring the remainder of the assets to a Special Agency like the Land Mortgage Banks.

(2) Accumulation of a strong reserve should be encouraged by the adoption of a stricter policy of lending and by reducing to the minimum the granting of loans for unproductive purposes.

(3) Reconstitution of primary credit societies on lines laid down in the Reserve Bank's bulletin on Village Banks and extension of their functions so as to form multi-purpose societies.

(4) The creation of small Banking unions of the Kodiner model and the affiliation of primary societies to those unions.

(5) Co-operative marketing should be developed from the very bottom by inducing the primary societies to take up the joint-marketing of agricultural produce raised by their members.

(6) The existing Central and Provincial Co-operative Banks should be re-organised with sufficient fluid resources and include in their directorate professional Bankers with a view to establishing closer connection with eminent commercial banks.

(7) The training of Co-operative Staff should be emphasized and

adequate opportunities should be given to non-officials in getting training in this line.

Sec. 25. Re-action of the present war on Co-operative movement.

The present great war which has far-reaching effect upon the economic structure of the country has not left the Co-operative movement untouched. The prices of commodities have swelled to an unprecedented height and the incomes of the debtors are scarcely sufficient to leave any surplus for the liquidation of debts. The credit societies have thus witnessed a huge accumulation of bad debts. The demand for loan has increased while the supply of funds available for loan has been deteriorating on account of heavy withdrawal of deposits. Other forms of Co-operative societies which are non-credit in structure and which aim at fostering the infant industries of India have been encouraged partly by grants from the government and partly by the rising prices of products. The Co-operative Supply Societies have been rendering yeoman's services by providing the members with commodities at cheaper prices.

Sec. 26. Facilities of Transporation.

The facilities of communication play a very important part in the economic development of a country. When we study the causes of industrial development of a country we cannot ignore the influence exercised by the opening of means of communication. Great Britain owes, we all know, its industrial success in no less degree to the excavation of the Panama Canals and to the construction of British railways. This has been the case with India too.

Sec. 27. Economic advantages of Railways.

(1) The Railways have driven out the economic isolation of primitive villages and have been reponsible for the new spirit of interdependence to be found among different villages. The interchange of commodities between different parts of India has developed a commercial relation between the various parts. Again, we cannot ignore the relation which India now bears with many foreign countries in respect of the interchange of commodities.

The railways have driven away the economic isolation.

(2) The market for commodities has been widened and in consequence production on a large scale with all its advantages is now possible. The railways have fostered the growth of engineering industries which now supply some of the stores which were formerly imported from foreign countries. The demand for railways sleepers and

facilities of transportation have widened the market for timber and as a result of this the conservation of forest has received particular attention. In this way the railways have helped the industries substantially.

(3) They have led to the localisation of industries in centres which afford natural advantages for such localisation.

(4) The services rendered by the Railways in preventing the recurrence of famines can never be exaggerated. The surplus crops in one part of the country can easily be transferred to the famine-stricken area to remove the distress of the people.

(5) They have offered opportunity for the free mobility of labour and have thereby solved the problem of unemployment to some extent. The railways also provide a large number of men with employment.

(6) They have annihilated distances to the advantages of the pilgrims who can now satisfy the burning desire of visiting holy places easily and with nominal expenses.

(7) The chief and easy means of communication have brought about an equalisation of prices all over India. The price of crops in a particular village has now little or no reference to the amount produced in that village.

(8) The railways bring considerable amount of revenue to the Government every year. They add to the total wealth and thereby increase the taxable capacity of the people.

Evils of railways.

The railways, however, cannot be regarded as an unmixed boon in India. They have facilitated the importation of cheap foreign articles and have thereby destroyed the indigenous industries. They have encourged the export of raw materials and thus retarded the growth of large-scale industry. They account for the depletion of forest resources which have important bearing on the economic condition of India. They are in a way responsible for the poverty of the village artisans and the consequent loss of resisting power in times of famine. They have thrown open to foreigners an opportunity of investing their capital in India and this has resulted in an exploitation of India's resources. The railways have obstructed the natural drainage system and turned the villages into hot-beds of malaria and other diseases.

Sec. 28. Benefits of Railways, social and political.

We have discussed in the preceding section the economic benefits of railways. Let us now devote our attention to the social and political benefits.

Social benefits : The railways have brought different parts of India into intimate touch with one another and have made free and speedy exchange of ideas possible. They have broadened the mental outlook and we feel not only for our neighbours but also for many others of whom we hear in the newspapers. The railways have encouraged the growth of a spirit of tolerance and have weakened caste prejudices.

Political benefits : The railways have considerably strengthened the political condition of the country by protecting it against foreign invasions. The frontiers of India are now safe and the fear of invasion from Afganisthan is less. In the event of internal disorder or external aggression, the existing troops may be easily re-inforced within a very short period of time.

Sec. 29. The Construction of Railways and its History.

The construction of railways was first contemplated in 1845 when authority was given to three companies to open railways here in India but the question of extension came in only during the administration of Lord Dalhousie. The history of Railway construction can be divided into three well-defined periods. First period extends from 1850 to 1869. The second period began in 1869 and continued till 1879. The third period commenced in 1879 and is continuing up to the present time.

The Railway history can be divided into three well-defined periods.

(i) The First Period—The system of railway construction which existed during this period was technically known as the Guarantee System. The system was so named because the Government undertook the responsibility of providing with free grant of land to the companies guaranteeing a minimum rate of interest upon all capital that would be invested by the companies for railways purposes. The object of so and of guaranteeing the rate of interest was to encourage the investment of foreign capital in the construction of railways. Thus if the minimum rate of interest guaranteed by the Government was 5 p.c. and the net profit did not cover more than 4 p.c., the Government had to pay out of its own treasury a sum of money, so as to make up that 5 p.c. rate of interest. The amount thus paid was recoverable out of the future profits half of which was to be utilized in that behalf.

In this system of railway construction the Government retained the rights of purchasing the railways after the lapse of 25 years or 50 years at the mean market price of the shares during three preceding years. Again, the railways would, under that system, become, at the expiration of 99 years, the property of the Government which would

have to pay only the market value of the rolling stock and other movable property. The companies likewise had the rights of surrendering the railway lines after six month's notice.

This system of railway construction did not prove successful on account of certain inherent defects such as (1) unlimited liability on the part of the Government, (2) want of economy in construction and was, therefore, finally abolished in 1869.

(ii) Second Period 1869-79.—The period of guarantee system was followed by one of direct State Railway system. Under this system the railway lines were constructed direct by the state without any help from outside companies. This attempt of the Government proved a failure within ten years because of the want of adequate funds ; again the falling exchange, the frontier troubles and the outbreak of famines taxed the financial capacity of the government and compelled the latter to take recourse to a new form of Guarantee System.

(iii) The Third Period from 1879 to the present time—We have seen that in 1879 the State Railway System was replaced by a new form of Guarantee System. This Guarantee System differs from the old Guarantee System in two main points :—First, under this system the Government is the proprietor of the railways constructed while under the old system the companies that took the risk of construction were the proprietors. Secondly, under the new system the Government subscribed a part of the capital and guaranteed the payment of a minimum interest on the amount of capital invested by the companies, whereas under the old system the companies supplied the whole capital and the Government merely guaranteed the rate of interest. The Government has gradually invested a large amount of funds with the result that the investment of companies plays a minor part in these days.

The new Guarantee system.

The Government of India has contributed to the development of the railways under two principal system *viz.*, (1) the Pure State Railway System which speaks of a direct and active participation of the State in the construction and working of the railways, (2) The Subsidised System under which the Government assists the companies which invest their capital and encourages them. The Government has also encouraged the construction of feeder lines by granting rebates on the gross earnings of the traffic interchanged with the main lines so that the dividend might rise up to 4 per cent. Under these terms several Branch Line Companies were formed and they contributed to the total mileage of railways. In 1900 the Railways were found to yield enormous profit

Two principal systems.

and the Government was encouraged to invest its own fund for the extension of railways. The Government adopted the Programme System and allotted every year a sum of money for apportionment among the several railways which required money for the materialisation of new projects. In this way the Government came to have an increasing share in the total capital outlay. The capital at charge of the state-owned railways now amounts to Rs. 755 crores. The Native States of India have also undertaken the construction of railways and about 5000 miles of railway lines have been constructed by them. But in spite of this development the total mileage which does not exceed 41,156 miles, is not sufficient to meet the requirements of a vast country like India and cannot favourably compare with the expansion of railways in Europe. There is a great deal of work to be done yet. Of the total mileage as stated above the Broad gauge accounts for 21,154·61 miles, the Metre-gauge for 15,899·92 miles and Narrow-gauge for 4,103·20 miles.

Construction of feeder lines.

Sec. 30. The Management of Railways.

The question of management is to be distinguished from that of ownership. The railways may be owned by the State, though the management may rest in the hands of the companies. As for example, the G. I. P. and N. W. R. lines, E. B. R. (now designated as B. A. R. since the amalgamation with Assam Bengal Railway in 1942) and E. I. R. lines, are owned and managed by the State. Almost 74·2 per cent. of the route mileage of Indian Railways is owned and 44·7 per cent. is directly managed by the State. The control of the railways is vested in the Central Government which discharges its duty through a body known as the Railway Board. The Board consists of the chief commissioner, a financial commissioner and two other members and is assisted by five directors. The Board acts as a department of the Central Government and exercises direct control over the state-managed railways. The chief commissioner is held responsible to the Central Government in the matter of railway policy. Each State-managed Railway has been placed under the charge of a General Manager while each state-owned and company-managed Railway is found under the charge of an Agent and General Manager. On the recommendation of the Acworth Committee the Railway Budget has been separated from the General Budget.

Different kinds of railway management.

There are also certain railways which though owned by the State are managed by companies under a guarantee of interest from the Government. These include the B. N. R., Madras and South Mahratta, and the South Indian Railways. There are again other Railways *e.g.*,

Oudh Tirhut Railways which are owned and managed by private companies. The Indian States have been working certain railways.

Sec. 30(a) Classification of Railways.

Railways may be grouped under one or other of the following three classes :—

(*i*) *Commercial railways* :—These have been constructed with a view to stimulating trade and industries of the country. These railways have helped the growth of inland trade considerably.

(*ii*) *Protected railways* :—These include those which have been constructed with the object of mitigating the evils of famine by speedy transport of food-stuffs to the famine-striken areas.

(*iii*) *Strategic Railways* :—These have been constructed for defending the frontiers of India from foreign invasion.

Sec. 31. Advantages and disadvantages of State management.

(1) *Advantages of State Management and disadvantages of Company Management* :

(*a*) The State management of railways is conducive to the interest of the Indians because the Government is expected to take much more interest for the welfare of the people than a private company would do. Local Advisory Committees have now been established in almost every railway, so that the railways may be managed in accordance with the advice of the general public.

(*b*) There will be a great scope for the employment of Indians in railways offices and the problems of unemployment will be solved to a certain extent. The personnel of the lower and subordinate ranks is predominantly Indian and the superior or gazetted ranks are being occupied by the Indians gradually. In 1939-40 of the superior officers recruited to the permanent establishment, 54·99 per cent. were Indians.

(*c*) The Government may reduce the fares for the benefit of the passengers and encourage the industries by charging reduced freights for the transportation of raw materials and finished products. Companies with a foreign domicile will scarcely listen to the grievances of the people and take steps for their removal.

(*d*) In State management it is expected that no discrimination will be made between Indian and European traders.

(*e*) The administration of railways will be less expensive because of the possibility of large-scale management. The operating ratio of Indian State-owned railways is the lowest amongst some of the leading

countries of the world It was only 66 per cent. of the gross traffic receipts in 1938-39 as compared with 85·7 per cent. on the Canadian Pacific Railways. State-management will be more economical in this sense that the entire profit will go to Government treasuries.

(*f*) The railways will be constructed in those places where such construction will be required for the safety of the country although they might not bring sufficient revenue to remunerate the Government.

(*g*) The management by companies when the proprietory interest in the railways is vested in the State cannot be efficient inasmuch as the companies will have a divided allegiance to the Board of Directors which appoints and pays them and to the Government which controls the directors.

(*h*) A mere change in the domicile as proposed by the minority of the Acworth Committee cannot bring that independence of Government control which contributes to the efficiency of company management.

(*i*) State management will offer opportunities for the training of the military men.

(*j*) State management will stimulate the investment of Indian capital in Railway debentures and facilitate external borrowing at more convenient rate of interest.

(2) *The Disadvantages of State Management and Advantages of Company Management :*

(*a*) The State management means a management by State officials. The State officials who are sure of the fixed salaries are not expected to take as much interest in the management as the private companies will do.

(*b*) The existence of State Railways side by side with Company Railways will lead to the sacrifice of the latter's interest for the benefit of the former.

(*c*) The Government will enter into commercial sphere and the political interest may cause a deviation from purely commercial policy.

(*d*) Since the management will be made by salaried officers there will be extravagance in the construction of railways. The railway lines may be constructed in those districts where the chance of profit is not very great.

(*e*) The companies will generally determine seniority among the railway officials with reference to their efficiency and this fact will serve as stimulus to them to exert themselves to the best of their ability.

Sec. 32. The report of the Acworth Committee and the separation of Railway Budget.

The Acworth Committee which was appointed by the Government to enquire into the railway administration in India published its report in 1921. The Committee pointed out the defects of the railway administration and made certain recommendations the most important of which was the separation of the railway budget from the general budget of the Government. The reasons for this recommendation were :—(*i*) The proposed separation would remove the uncertainties in the annual budget estimate consequent upon the inclusion of railway profits which are greatly influenced by season and trade condition. (ii) The proposed separation would make the railways independent of the exigencies of the general budget and facilitate their running on a commercial basis. The Committee recommended that there should be increasing association of the Indians in the working of the railways and that facilities should be given for training Indians for the superior services. Some members of the Committee were bold enough to suggest that the management of the railways should not be left with the companies of English domicile while the companies of Indian domicile might be entrusted with the same functions. The majority of the commissioners were in favour of the State management of Railways.

The recommendations of Acworth Committee.

On the basis of the recommendations made by the Acworth Committee and by the Retrenchment Committee the Legislative Assembly passed in 1924 a Bill recommending to the Govenor-General of India that the railway budget should be separated from the general budget and that certain contribution should be made every year by the railway department to the general revenues. The amount of such contribution would, according to the modified resolution of the Assembly, be one per cent. of the capital at the charge of commercial lines at the end of penultimate financial year plus one-fifth of any surplus profit in that year. The surplus profit that would remain after the payment of contribution would go to constitute a reserve fund to be spent mainly for the development of the Indian railways.

The recommendation of the Legislative Assembly.

Sec. 33. Railway contribution to the general revenue: Niemeyer's report and Wedgwood report.

The question of Railway contribution to the general revenue has come into prominence in recent times in view of the improved position

of the railways since 1936-37. Sir Otto Niemeyer, again, has in his report created much provincial interest in the question by making the assignment of a half share of the income-tax by the Central Government to the provinces dependent upon the railways paying their contributions to the general revenue. The Wedgwood Committee which was set up to survey the whole field of railway finance have recommended the abandonment of the system of contribution to the general revenue in order to place the railways on a sound financial footing. This recommendation has evoked serious criticism from the provinces and the public because it aims at depriving the provinces of the benefit of Niemeyer's award.

Railway contribution

Other recommendations relate to suggestions for efficiency and economy in the railway administration. The Committee also emphasised need for a depreciation fund and a revision of railway rates and fares.

Sec. 34. Indianisation of services.

The railways in India have got to employ a large number of men every year. Formerly the superior services were generally reserved for the Europeans and the Indians were scarcely appointed to fill up any position of responsibility. The management of railways by foreign companies was in a way responsible for this state of discrimination. The matter was referred to the Acworth Committee and the Lee Commission. The Acworth Committee emphasized the importance of Indianisation of superior services and the Lee Commission recommended that recruitment in India should be advanced as soon as practicable upto 75 per cent. of the total number of vacancies in the superior services. Later on, the Wedgwood Committee reported in favour of the continuity of the practice of recruitment of Europeans as supervisors in the railway workshops. The Government, however, has been wise enough to accept the recommendations of the Acworth Committee and the Lee Commission and has introduced the practice of recruiting Indians to fill up vacancies in the superior services. The direct recruitment in the state-managed railways in 1939-40 amounted to 6·7 per cent. Europeans and 93·3 per cent. Indians. To afford facilities for the training of subordinate officers a Railway Transportation School at Chandausi and several area schools have been started. There was also the railway Staff-Collage at DehraDun but it had to close its doors in 1932 on account of financial stringency.

Direct recruitment of Indians.

Sec. 35. The effect of railway rate on industries.

The Indian industries have often been seriously affected by the

rates which the articles have to pay when they are conveyed from one part of the country to another. The freight charges on raw materials when they are carried to the ports are lower and this low rate at the port has been responsible for the heavy export of raw materials to the prejudice of the Indian industries. The low freight is charged not only on the raw materials when they are carried to the ports for exportation but on imported finished products when they are conveyed into different parts of India. This method of fixing rates, however sound it may be from the financial point of view, has seriously handicapped Indian industries. Again, the favourable port rates have led to the concentration of many industries near port towns and caused difficulties in the supply of labour. To remove this evil and to promote industrialisation the Industrial Commission recommended an equality of treatment in respect of internal traffic and traffic to and from the ports. It has also been argued that European merchants received more favourable treatment and this is detrimental to the devolopment of Indian industries and enterprises.

Effect of low port-rates.

Another defect in the railway rates lies in the block rates i.e., higher mileage charge for short distance imposed upon commodities which want the services of another system of railways for a longer distance. This system has not been supported by the Industrial Commission. The system of fixing rates according to the distance travelled on each line is another difficulty which stands in the way of India's industrial success. The Fiscal Commission recommended that special rates should be granted for a term of years to new industries and the Agricultural Commission recommended a reduction in the freights charged upon fertilizers, fuel and milch cattle. In pursuance of these recommendations the Government has reduced the rates for carriage of livestock. In this connection it is interesting to note that the Rates Advisory Committee has been set up with one member representing the commercial interests. This Committee may enquire into complaints as to the rates and make such recommendations, as it may consider necessary for safeguarding the interests of trade and industry. This Committee is purely advisory in character and cannot always make its opinion effective. It is highly desirable that this committee should be given mandatory power like those enjoyed by the Railway Rates Tribunal in Great Britain.

Block rates.

Rates Advissory Committee

Sec. 36. The Financial position of the Railways.

Since 1900 the Railways have been yielding some amount of

revenue. During the Great War the Railways earned handsome profit and in 1917-18 the net profit amounted to $7\frac{1}{2}$ per cent. With the close of War the rate of net receipt took a downward course till at last it reached the low level of $2\frac{1}{2}$ per cent. in 1921-22.

Rate of profits.

Since the separation of the railway budget from the general budget the railways have been contributing several crores of rupees every year. The total contribution made between 1924 and 1931 amounted to Rs. 39 crores. The world depression which manifested itself in 1929 changed the state of things. The receipts of the Railways dwindled substantially and the result was heavy deficit in the Railway budget. Between 1931 and 1935 the total deficit amounted to Rs. 32 crores. The financial position improved in 1936-37 when the net earnings amounted to 4·33 per cent. In 1938-39 the railways yielded a surplus of Rs. 2·56 crores. In 1940-41 the revised estimate drew a surplus of Rs. 14·59 crores out of which general revenue received Rs. 9·96 crores as contribution. The year 1941-42 gave out a more hopeful position. The Budget estimate showed a surplus of Rs. 11·83 crores out of which Rs. 10·18 crores represented contribution to the General Revenue and Rs. 1·65 crores represented contribution to the Reserve Fund.

Contribution of the Railways.

On the 2nd March, 1943 a new arrangement regarding the separation convention was revealed in the Resolution of the Assembly. According to this arrangement the Railways will contribute in 1942-43 Rs. 2·95 crores to the general revenues over and above the arrears and current contribution due under the old convention. From 1943-44 the surplus on the commercial lines will be utilized to pay off the outstanding loans from the Depreciation Fund and 75 per cent. of the balance will be given to the general revenue and 25 per cent. will be carried to Reserve Fund.

The budgets for 1944-45 and 1945-46 showed surplus of Rs. 42·01 and Rs. 36·51 crores respectively. These surplus budgets have brought considerable revenue to the Government and led to accumulation of huge resources to be profitably utilized in Post-war Schemes of Development.

The improvement in the financial position is mainly due to the increase in traffic which the present war has brought with it. The rapid industrialisation of India due to India's sympathetic participation in the supply of war materials has also meant increasing prosperity for the Indian Railways.

Sec. 37. Statutory Railway Authority.

With the introduction of Indian Federation there will be created a Federal Railway Authority having control over the regulation, construction, maintenance and operation of the railways. The Government of Indian Act, 1935, lays down the principles and details for the constitution of such authority. The said authority shall be a body corporate consisting of seven persons three of whom shall be appointed by the Governor-General, who, in his discretion shall determine their salaries and allowances and appoint a member as the President thereof. One of these members must have experience in commerce, industry, agriculture, finance or administration. At the helm of executive staff of the Authority there shall be a Chief Railway Commissioner appointed by the Governor-General after consultation with the Authority. There shall also be a Financial Commissioner appointed by the Governor-General. The Authority shall follow the policy enunciated by the Federal Government. In case of any dispute between the authorities and the Federation the decision of the Governor-General in his discretion shall be final. If any dispute arises between the Authority and any Federated State the matter must be referred to the Railway Tribunal consisting of a President and two other persons to be selected from a panel of eight persons appointed by him. The President of the Tribunal shall be one of the Judges of the Federal Court appointed by the Governor-General in consultation with the Chief Justice.

Constitution of the Statutory Railway authority.

The Federal Railway Authority shall not be liable to pay Indian income tax or super tax.

Sec. 38. The Second Great War and the Indian Railways.

The Indian Railways witnessed unusually prosperous days during the last Great War when the Railway traffic increased abnormally and brought immense revenue. Large funds were available for new construction and efficient working of the Railways. India happened to play the role of the arsenal for the eastern theatre of war and needed extra Railway plants and equipments for that purpose.

The War Transport Board was constituted with the representatives of the Railway Department, the Commerce Department, Finance Department, the Quarter Master-General, The Defence-co-ordination Department and the Shipping Controller of India. The Chief Commissioner for Railways was to act as president of the Board which was chiefly concerned with the promotion of facilities for the transport of all military traffic and utmost co-ordination of all available means of transport.

Sec. 39. Post-war schemes for Railway Development.

The importance of expansion of the Railways on the economic well-being of India cannot be exaggerated. Again, the strategic railways have to be constructed on political grounds. The last Great war also exhibited the important role which the Indian Railways played in the speedy transport of war materials to the eastern theatres of war.

The expansion of railways is still inadequate. India with a total area of 1803000 square miles has only 39712 miles of railways while Europe (with Russia) commands 190,000 miles of railways within an area of 1660000 sq. miles. This comparison makes out a strong case for rapid expansion of railways. The Bombay Plan upholds a scheme for such expansion by constructing some 21,000 miles more of railway lines at an estimated capital expenditure of Rs. 434 crores and an annual maintenance charge of Rs. 9 crores. A more hopeful and comprehensive plan for construction of 5000 miles of new railways, at an expenditure of Rs. 319 crores comes from the Railway Board. The last plan also aims at improving the quality of service by providing better facilities to passenger traffic and encourages the participation of the railways in road, air and waterways transport. Such a co-ordination of the different means of communication will surely make for economy and efficiency in the administration.

Sec. 40. Other means of Communication.

Three other important means of transport.

We have discussed above the importance of the railways on the economic development of India and the facilities of communication effected by them. We shall now turn to discuss other factors that have been instrumental in revolutionising the methods of communication. These factors include three important means of communication *viz.*, (1) the natural water-ways, (2) the canals, (3) the road-ways.

Various rivers and their services.

(*1*) *The most important of the navigable rivers of India* are the Ganges, the Brahmaputra, the Irrawaddy and the Indus. The Indus is navigable by steamers upto Dehra Ismail Khan in the North-West Frontier Province. This river and its tributaries—the Chenab and the Sutlej, offer immense facilities for inland navigation. The Ganges is navigable upto Cawnpore; the Brahmaputra permits steam navigation upto Dibrugarh while its tributary, the Surama proceeds as far inland as Sylhet and Cachar. The Irrawaddy and its numerous deltoid channels give facility for steamer navigation for more than 500 miles. Besides these important rivers there are several others

—the Hooghly, the Mahanodi, the Godavari and the Krishna—whose beds afford considerable facilities for water transport. These rivers have added to the wealth of India in the sense in which the Thames may be called a permanent source of prosperity to England. Besides these inland waterways India enjoys considerable facilities for oceanic transport. This oceanic transport is chiefly concentrated to a few ports which exist in India.

Canals.

(2) *The construction of several canals*, such as the Ganges canal and the Buckingham canal, has increased the facilities of communication in those parts of India through which they pass.

Sec. 41. The Economic advantages of Waterways.

Economies of waterways.

The importance of water transport cannot be exaggerated. It has certain special advantages over road and rail transport. The waterways are generally gifts of nature and require only a small expenditure for maintenance. The cost of providing docks, wharves and warehouses is also moderate when compared with cost of providing terminal facilities in the case of rail transport. The cost of ships and motive power is less than the cost of railway engines and rolling stock. For these reasons the water transport can afford to convey bulky goods at cheaper rates. Of course, the construction of artificial canals involves a heavy initial expenditure but these may be profitable in the long run if steps be taken to make them useful for the purposes of navigation and irrigation. In spite of these advantages the authorities that rule India have not cared to improve the condition of the waterways and we find on the contrary that their interests have been adversely affected by the Railway rates policy. The Industrial Commission did not approve of this indifferent attitude of the Government towards inland waterways and recommended that the railway and the waterway administrations should work together harmoniously so that the maximum benefit may follow.

Extensive coast line.

India also possesses certain advantages for external water transport. She has a coast line of over 4000 miles and occupies a favourable position in this respect when compared with the rest of the world; but the absence of natural harbours has dealt a death blow to her aspiration of becoming a sea-faring country.

Sec. 42. Post-war Shipping policy.

In view of the large volume of India's coastal trade and oversea trade and the extremely small number of deep-sea ship, which India

possesses, the necessity of an Indian Mercantile marine has been emphasised by the patriots and the Industrial magnets of India. Mr. Walchand Hirachand came forward with a project for ship-building industry but this Scheme could not materialise on account of want of plant and technical assistance. With the termination of war the bright prospect of the ship-building industry has been emphasized by the Post-war Policy Committee. The industry can thrive only when a fair share of the coastal and seaborne trade has been reserved for the Indian ships. The Government of India has assured that an increased share of the coastal trade, substantial share in the near trade, a fair share in the eastern trade, and a fair share in the European and North African trade will be reserved for the Indian ships. This assurance is too vague as it does not prescribe the exact proportion of different kinds of trade which will be reserved for the Indian Mercantile Marine. Again, in view of the infancy of the industry it is highly desirable that the entire coastal trade, 66 per cent of India's overseas trade and 33 per cent of the eastern trade should be reserved for the Indian Mercantile Marine. Again, the Indian Mercantile Marine should be a purely Indian concern controlled and managed by the Indians.

Sec. 43. Importance of Road Transport.

The importance of roads and the facilities of transport which they bring about can scarcely be exaggerated. In fact a system of well-kept and well-constructed road is essential for the country's economic and cultural progress. The construction of roads was neglected in ancient India. With the advent of the British rule the importance of roads was clearly appreciated and during the administration of Lord Dalhousie Public Works Departments were created in each province with a view to promoting the development of roads. Again, the construction of railway lines and profitable working of them necessitated the construction of many feeder roads. Lord Mayo and Lord Ripon took an active interest in the promotion of road communication and their schemes of Local Self-Government purported to give a stimulus to road-making. As a result of these activities the conditions of roads have improved considerably and the number of roads is gradually increasing. But India cannot compare favourably with other countries in regard to road mileage. India maintains only 84 miles of road per 100,000 population while U. S. A. maintains 2500 miles for the same population.

Indians in early times did not take proper steps.

There exist at present four great trunk roads with which most of

the feeder roads of the country are linked. The most prominent of these roads is the Grand Trunk Road stretching right across the northern part of the country from Khyber to Calcutta. The other three connect Calcutta with Madras, Madras with Bombay and Bombay with Delhi. These four trunk roads account for about 5000 out of 120,000 miles of metalled roads in British India. Besides these metalled roads there are village kaccha roads stretching throughout the country but the condition of these roads is precarious. The development of roads is now the concern of the Provincial Governments but the responsibility in this mattter has been delegated to the District Boards and similar other bodies assisted by grants from the provincial revenues. The local institutions are trying their best to construct new roads and to improve the condition of existing ones but they have not been in a position to meet the requirements of the country on account of paucity of funds at their disposal.

Four great Trunk Roads.

The importance of good road communication has been emphasized by the Agricultural Commission. India is an agricultural country and the prosperity of her people is intimately connected with the value they receive for their agricultural produce. The railways have no doubt facilitated the transport of agricultural produce from one part of the country to another but the poor agriculturists living in remote villages cannot derive any benefit from these railways unless there are good feeder roads leading to the railway station. Again, as the construction of railway lines involves heavy expenditure a system of good road communication will be a better substitute specially in case of short distances. Another important advantage in road communication is that the capital required for the construction and maintenance falls upon the Government or a Company which undertakes the task of construction. Again, the roadways have in most cases secured for the railways good traffic and except in cases where they promote a rival motor traffic the construction of roads is not detrimental to the interest of the railways. A good system of road communication may, by facilitating decentralisation of industries in rural areas, avoid the congestion in towns and reduce the cost of production while securing better condition of employment for the labourers.

The importance of road communications.

Sec. 44. Rail-road competition : Policy of co-ordination.

With the development of roads and the rapid growth of motor transport in India the question of rail-road competition has come into prominence. The vested interest of the railways is found to be in

jeopardy on account of the competition of motor buses and lorries. The competition is all the more keen in the suburbs of cities and in areas where good metalled roads lie parallel to the railway routes. This competition no doubt brings immediate benefit to the public by opening alterative methods of transport and by compelling the railway authorities to look to the comforts and convenience of the passengers but the running of rival transports on uneconomic lines entails huge losses to both and is to be discouraged from the national point of view. This uneconomic competition makes a strong case for a policy of co-ordination. The railway authorities which view with grave concern this cut-throat competition of an alternative motor transport referred the matter to Mitchell and Crikness Commitee. The said committee submitted its report recommending the running of motor transport by railways on roads parallel with railways and emphasized the necessity of concerted action. The Rail-Road Conference which was subsequently held passed resolution for the co-ordination of efforts between the rival authorities with a view to reducing the uneconomic competition and for the removal of the statutory embargo in respect of operation of motor services by the railways. In pursuance of the resolution the Railway Act was amended in September, 1933. An advisory Council known as Transport Advisory Council has been set up for devising means of effecting concerted policy of developing road, rail and other forms of transport. The matter was again referred to the Wedgwood Committee and in accordance with recommendation of the said committee the Motor Vehicles Act was passed in 1939 regulating the running of motor transport through the agency of Provincial Transport Authority and Regional Transport Authorities to be constituted for the purpose. The Government of India have also laid down that not more than 25 per cent. of the provincial shares in the Road Fund should be used on roads which compete with railways. The provinces again, are vitally interested in the welfare of the railways and cannot wisely undertake the development of any rival motor route because according to Niemeyer's scheme their share in the income tax has been made dependent upon the railways paying their contribution to the general revenues.

Efforts for co-ordination.

Sec. 45. Recent Policy of Road Development.

In view of recent development of motor transport in India the construction of roads has become an All-India concern and a matter of deep consideration for the Central Government. The Government of India was pleased to appoint a Road Development Committee. The Committee of which Mr. M. R. Jayakar was the President were

asked to make necessary recommendations on the following points :—(i) the desirability of developing the road system of India, (ii) the most suitable method of financing schemes of development, (iii) the formation of a Central Board which will facilitate the co-ordination of road development and research and road construction. The said Committee laid stress in clear terms on the importance of road development in India and were bold enough to remark that the Central Government owed a great responsibility in the matter of road development in view of the important contribution made by the feeder road to the central revenue. The Committee recommended the imposition of additional duties on motor spirit and motor vehicles. They did not approve the creation of a Central Board and opined that with a view to effecting co-ordination, the representatives of the Central Government and Local Governments should hold road conference and exchange their views on matters of common concern. In accordance with these recommendations of the above Committee, the Indian Finance Act which was passed in 1929 provided for an increase in the import and excise duties on motor spirit from 4 to 6 annas per gallon. The Act was amended in 1937 and the amended resolution contains the following provisions—(i) the duty imposed in 1929 should continue to be levied for road development, (ii) the proceeds of the additional duty should be allotted as a block grant for expenditure on road development and credited to a separate Road Development Account, (iii) out of the annual grant 15 per cent should go to constitute a reserve fund and the remainder should be distributed among the provinces in the ratios which the consumption of petrol in each province would bear to the total consumption in India in the proceeding year, (iv) schemes for expenditure out of these grants should be approved by the Governor-General in Council with the advice of the Standing Committee and the fund allocated for expenditure in a province may be resumed by the Governor-General when the Provincial Government fails or unreasonably delays to give effect to the recommendations of the Governor-General-in-Council.

Appointment of the Road Development Committee.

The total receipts under the Road Development Account during the first five years were Rs. 518 lakhs ; about 90 per cent. of the amount were available for distribution among the provinces. The 75 per cent of funds so allocated to a province is spent in the development of main roads and the balance is spent towards maintenance of feeder roads. The Provincial Governments were also permitted to borrow money from their share in the account in order to meet the heavy expenditure on road construction. The desirability of financing the construction of road by means of loans was emphasized by the Agricultural Commission.

With a view to co-ordinating the different means of communication the Government has created a new portfolio for communication, the member in charge of which is responsible for roads, Railways, inland navigation, aviation, etc.

As a result of this allocation of funds the provinces have been in a position to construct many important roads. Bengal commands the greatest road mileage amounting to 91,192 out of a total mileage for 285,313 for all Governors' provinces.

Sec. 46. Post-war plan of Road development.

The Post-war plan for reconstruction cannot overlook the importance of road development in view of the extreme deterioration in the quantity and quality of existing roads in India. The last Great War added to the existing roads by the construction of a few strategic roads. The maintenance of the existing roads and the construction of new roads deserve close attention in the post-war period in view of the extreme difficulty experienced in the matter of transport of food stuff during the recent Bengal famine. The Bombay Plan wants to double the existing mileage of road within 15 years and proposes a network of feeder roads connecting each village with the main road so that every village will be within a mile or half a mile from the main road. The necessary cost of construction has been estimated at Rs. 413 crores and the maintenance cost will be about Rs. 35 crores. The Government Plan proposes to construct 160,000 miles of roads throughout the whole of India in a capital expenditure of Rs. 450 crores. If any of these two plans is given effect to there will come a revolution in the system of road transport.

Sec. 47. Air Craft : Civil Aviation.

In recent years the development of aviation affords a striking instance of material progress. It has revolutionized the system of transport and annihilated distance by speeding up communications in a way which was beyond all expectation. The reference in ancient Hindu Sastras which appeared to be fairy tales now commands support. It is also pleasing to note that what was possible for gods in ancient times is now within reach of human ambition. The modern tendency is towards expansion in the commercial air transport. This expansion movement is steadily gathering force and broadening its basis. We have in British India 23 civil aerodromes and landing grounds open for public use by passenger-carrying aircraft. The regular air route in India covered 6,700 miles in 1938.

A revolution in the system of transport.

The year 1933 witnessed the new Company organisation in which arrangements for the operation of the Trans-India Air service are linked with the development of internal air services. The Indian Trans-Continental Airways Limited has been formed with a view to operating jointly with the Imperial Airways Limited, the link from Karachi to Singapore in the England Australia air service. The Karachi Singapore Service which was operated by 4 Armstrong Whitworth XV (Atalanta) machines with a normal crushing speed of 118 miles an hour had a defined route with intermediate stations at Jodhpur, Delhi, Cawnpore, Allahabad, Calcutta, Akyab and Rangoon and had been rendering yeomen's service to the whole of Northern India and Burma. The Indian National Airways Ltd., was started with a view to developing the feeder services in North-India. From 1935 the Imperial Airways London Karachi Service and with it the Trans-India Service upto Calcutta and the feeder Service—Karachi-Lahore-Delhi, Bombay-Delhi, Karachi-Calcutta, Karachi-Colombo, Bombay-Kathiawar—have been operated twice a week. Considerable efforts have been made for the development of "All-up" mail scheme and five services a week each way from London to Calcutta have been operating since 28th February, 1938. The last great war brought about considerable dislocation in the service. The regular weekly Imperial Airways service between England and Karachi is under suspension since June, 1940. The India-England Airgraph service was introduced on Feb, 2, 1942. This made arrangement for photographing on miniature films the letters to be sent to England. This mode of service has increased the letter carrying capacity of mail planes. The charges for the service have also been reduced and the present charge for letter postage is 2½ annas, for ½ an ounce. The efforts of the Imperial Air Mail Service have been supplemented by new internal Air Service established by Messrs Tata Sons Ltd. There is also considerable flying club movement in India and private flying is making rapid progress. For the promotion of training in aircraft the Government of India has been giving subsidies to the instructional clubs under certain conditions and awarding scholarships to students.

Various Air Services.

The Air Services are controlled by the Indian Air-craft Act of 1934 with the assistance of Director and Deputy-Director of Civil aviation.

The outbreak of war emphasized the urgency of developing aviation in India. Attempts have been made for strengthening the Indian Air Force and greater facilities have been offered for the training of Indians in the art of flying. The training of cadets is undertaken in India at the School of Air Force Training at Ambala.

Efforts have also been made for the construction of aircraft in India and the Hindusthan Aircraft Company Ltd. has been registered in Mysore to take initiative in the matter. A factory has been established at Bangalore for the production of aircrafts with the assistance of American experts. The factory grew in strength and was in a position to turn out as many as 30 aeroplanes per month when the exigency of the war demanded its compulsory acquisition and management by the Government. Its contritution during the war time is a military secret but in view of its previous capacity it can be safely concluded that the factory will be competent to extend its peace-time scale of production under the protection already assured by the Government. The Post-war plans for encouraging the growth of this infant industry will easily materialise in view of the large number of trained pilots who have been released from military services and who can lend their services to the industry in its civil occupations. Again, protection of this industry is a necessity on political grounds. Growth of Civil aviation will assist greatly the formation of a Military Airforce in India.

Sec. 48. Posts and Telegraph : Telephone : Wireless Broadcasting.

Since the advent of the Britishers in India considerable progress has been achieved in the public utility services. Indian Posts and Telegraphs have brought about a revolution in the means of communication. These may be regarded as commercial undertakings in which the Government has a monopoly. For postal purposes India has been divided into 8 circles of which 7 are under the Post Masters General. These Post Masters General are subordinate to the Director General of Posts and Telegraphs who controls the entire system. The number of Post offices is swelling day by day and there is scarcely any place in British India which does not get the benefit of the Postal system. At the end of 1940-41 there was 25338 Post Offices and 160540 miles of mail lines.

A Government monopoly.

The Post office transacts various kinds of business. It affords facilities for the speedy delivery of letters, parcels and packets and helps the transfer for money from one place to another. The inauguration of the air mail service has gone a great way in speeding up the foreign and the inland mail. The Savings Bank Department offers opportunities for safe investment of small sums of money and thus develops the banking habit of the people. The Post office also acts as an agent of the Public Health Department in selling Government quinine.

The Telegraphic department is concerned with the transmission and reception of inland and foreign telegrams. The recent introduction of wireless telegraph has enhanced the utility of this department to a great extent. This department helps substantially the business community with quotations of prices prevailing throughout the country and transforms the whole country into one economic market.

For telegraph engineering purposes India is divided into five circles each in charge of a Director.

The telegraphic department has developed a system of telephonic communication in India by connecting the important cities with the help of the trunk lines. At the close of 1938-39 the number of telephone exchanges established by the Department was 274 with 24,113 straight line connections and 3392 extension telephones. In addition to the departmental exchanges there are 24 exchanges managed by licensed telephonic companies mostly in large towns. In 1933 the overseas radio-telephone service with Great Britain was opened and later extended to other countries all over the world.

Wireless Broadcasting has now become an important instrument of educating the illiterate people and of providing the rich with a variety of entertainments. There are thirty-three departmental wireless stations situated at different parts of the country. The Indian States Broadcasting service is working satisfactorily and satisfactory results have been obtained from the operation of short-wave transmitter. The arrangements for the reception of the 'Empire' short-wave transmissions from England have been improved considerably. A high-power medium-wave Broadcasting station has been established at Delhi. The Government has appointed a Director of Broadcasting in India for better organisation of the development and for thorough investigation of broadcasting problems. A photo telegram service between London and Bombay was opened in June, 1943.

Sec. 49. Motor Transport : its possibilities.

In recent times a revolution in the road transport has been brought about by the swelling number of motor cars and motor lorries which have been rendering cheap and speedy services by carrying passengers and goods. These epoch-making changes have been due partly to the improvement in the condition of roads and partly to increasing supply of motor cars and lorries from foreign countries. Happier will be the state of things if automobile factories are ever established in India in accordance with the scheme approved by the National Planning Committee in Bombay. India has a bright prospect for success in this industry in view of the high import duty on foreign cars, heavy freight

charges and marine insurance rates. The only obstacle that stands in the way is the absence of requisite machinery and skill.

Now the question is whether the growth of motor industry and the consequent development of motor traffic will adversely affect the vested interest of Railways. It often happens that the motor services compete with the Railway services and attempt to attract customers by reducsing fares to the disadvantage of the Railways. This cut-throat competition must be avoided because it entails heavy loss on either side. Hence some sort of regulation is urgently needed. The Central Legislature appreciated the urgency of such regulation and passed the Motor Vehicles Act in 1939 with a view to creating regional authorities for regulating and co-ordinating the motor services.

Questions and Answers.

Q. 1. Discuss fully the defects and difficulties of Indian Agriculture. What methods would you suggest for its improvement? (C. U. 1920.)

Ans. *See*—Sec. 2.

Q. 2. The problem of Indian agricultural development is mainly a problem of water supply. Discuss the various ways by which attempts have been made to solve this problem. (C. U. 1926.)

Ans. *See*—Sec. 6.

Q. 3. What are the obstacles in the way of agricultural improvement? How would you meet them? (C. U. 1927).

Ans. *See*—Secs. 2-6.

Q. 4. Account for the causes of agricultural indebtedness of India.

Ans. *See*—Sec. 9.

Q. 5. Examine the measures adopted by the Government to solve the problems of agricultural indebtedness of this country. (C. U. 1922.)

Ans. *See*—Secs. 9-11.

Q. 6 Describe the scope of co-operation in the field of agriculture in India. (C. U. 1921.)

Ans. *See*—Sec. 11.

Q. 7. What are in your opinion the criteria by which the success of co-operative movement should be judged? Has the movement succeeded in Bengal? Give facts in support of your answer. (C. U. 1928.)

Ans. *See*—Sec. 11.

Q. 8. What is the position of provincial co-operative banks in the co-operative organisation of India? Is it necessary to create an All-India institution to finance the provincial banks? (C. U. 1928).

Ans. *See*—Sec. on Provincial Banks.

Q. 9. What are the Guaranteeing Unions? (C. U. 1922).

Ans. *See*—Sec. 9.

Q. 10. Describe the effects which Railways have produced on industries and on economic condition of people of India. (C. U. 1927).

Ans. *See*—Sec. 29.

Q. 11 State the Guarantee System of Railway construction. (C. U. 1926.)

Ans. *See*—Sec. 29.

Q. 12. The Railways in India are owned and worked under a variety of conditions. Examine with reference to the history of the railway construction of India the circumstances that account for the variety. (C. U. 1928.)

Ans. *See*—Sec. 29.

Q. 13. Examine the case for and against the State management of railways. (C. U. 1922 : 1939).

Ans. *See*—Sec. 31.

Q. 14. What recommendations did the Acworth Committee make in connection with the management of railways?

Ans. *See*—Sec. 32.

Q. 15. What led to the enactment of the Co-operative Societies Act 1912? In what respects has this Act been an improvement upon the Co-operative Credit Societies Act, 1904? (C. U. 1921 A. U. 1940).

Ans. *See*—Sec. 11.

Q. 16. What are in your opinion the defects and difficulties of Indian Agriculture? What steps would you suggest for their removal? (C. U. 1931).

Ans. *See*—Sec. 2.

Q. 17. Write notes on (i) 'unlimited liability'. (ii) The Co-operative Agricultural Sale Society. (C. U. 1931.)

Ans. *See*—Secs. 15-16.

Q. 18. States some of the striking economic and social effects that have followed from the construction of railways in India. Do you think that any further extension of the Indian railway system is desirable? (C. U. 1931).

Ans. *See*—Sec. 19.

Q. 19. Discuss the effect of the present method of fixing railway rates on Indian industries.

Ans. *See*—Sec. 35.

Q. 20. Examine the scope of co-operation in the field of Indian agriculture. (C. U. 1932.)

Ans *See*—Sec. 17.

Q. 21. Examine the causes and effects of rural indebtedness in Bengal. Discuss the steps taken by the State to afford relief to the indebted agriculturists. (C. U. 1933.)

Ans. *See*—Secs. 9 and 10.

Q. 22. Examine the arguments for and against the State management of railways in India. (C. U. 1933.)

Ans. *See*—Sec. 31.

Q. 23. The problem of Indian agricultural development is mainly a problem of water supply. Critically examine the statement and show what other factors are necessary for its development. (C. U. 1934).

Ans. *See*—Sec. 16.

Q. 24. Examine the progress made by co-operative movement in India. Discuss the part played by the State in this matter. (C. U. 1934).

Ans. *See*—Sec. on Co-operative Movement in India.

Q. 25. Discuss the various impediments in the way of agricultural improvement in India. Suggest means whereby these obstacles can be removed. (C.U. 1935).

Ans. *See*—Sec. 2.

Q. 26. Examine in detail the actual and possible benefits of co-operative societies in India. (C. U. 1935).

Ans. *See*—Sec. 17.

Q. 27. Give an account of the various types of irrigation works in India and indicate their economic importance. (C. U. 1937).

Ans. *See*—Sec. 6.

Q. 28. Examine the causes and possible remedies of the sub-division and fragmentation of agricultural holdings in India. (C. U. 1939 ; 1943).

Ans. *See*—Secs. 2 and 6.

Q. 29. Describe the objects of the Co-operative Credit Societies in India. How far have these objects been realized in Bengal ? (C. U. 1939).

Ans. *See*—Sec. 21.

Q. 30. Describe the difficulties of the marketing of agricultural produce in India. Show how these difficulties can be overcome or mitigated (C. U. 1943).

Ans. *See*—Sec. 2 (a) d and Sec. 6 (xiii).

Q. 31. Point out the advantages of well-equipped means of transport and communication for the economic development of a country. Are the existing facilities of transport and communication adequate for India ? What improvements do you suggest ? (A. U. 1940.)

Ans. *See*—Secs. 27 and 41.

Q. 32. At his best the Indian cultivator is as good as any in the world, while at his worst it can be said that his miserable condition is brought about largely by an absence of facilities for improvement which is probably unequalled in any other country. (C. U. 1941.)

Ans. See—Sec. 3.

Q. 33. State briefly what do you consider to be the main causes of poverty in India. What remedies would you suggest ? (C. U. 1945)

Ans. *See*. Sec. 1.

CHAPTER V

ORGANIZATION OF INDIAN VILLAGE AND TOWN

Sec. 1. Primitive Village and its organization.

Self-sufficient nature of primitive villages.

The primitive villages were self-sufficient units. The defective means of communication did not allow the growth of a spirit of inter-dependence between different villages. Although nature had not distributed her resources equally among different villages it was useless to sit idle for that reason. The villagers must exert themselves to produce all the articles that were necessary for everyday use and could not depend upon their neighbours for the supply of those articles in the production of which they had comparative advantage. It is interesting to consider the organization by means of which the inhabitants of ancient villages managed to supply themselves with the articles they required.

Organization was based on caste system.

When we go to study the organization of primitive villages we find that underlying such organization there was the caste system. The occupation of the people was not dependent upon choice but was determined beforehand by the caste to which they happened to belong. Thus even in this ancient society the conception of division of labour in crude form was not unknown.

The caste system which lay at the root of village organization divided the population of the village into several classes, each of which was given a specified function to perform. There were the agriculturists who remained engaged in cultivating the soils. There were other functionaries such as the potter class, the barbar class, the carpenter class and the washerman class each engaged in specific hereditary duties.

The scale of production was determined by the demand in a particular village and was necessarily very small. Production was carried on in cottages and articles were produced to meet requirements of villagers. Production again involved the use of small amount of capital. There was the village mahajan from whom capital could be borrowed by the agriculturists and the artisans. The absence of banking facilities strengthened the grip of mahajan and enhanced the rate of interest.

The system of exchange was one of barter. There was mutual

exchange of services and the use of money as a medium of exchange was unknown.

The control of this organization was vested in the headman of the village. He used to hold the position of an arbitrator to whom disputes of various descriptions were referred. He sometimes undertook the responsibility of the collection of revenues.

There was a village fair where the articles of several adjoining villages were exhibited for sale. We may term it as a kind of exhibition of the artistic skill of different villages.

Sec. 2. Status and custom in Primitive organization.

In ancient villages competition was unknown. The individual was not a free agent and could not assert his individuality against the society of which he happened to be a member. His status was determined by the accident of birth and he could not contract himself out of it. In the family he had a definite status and he could not cut off relation with other members at his sweet will and pleasure. The custom also played an important part in the organization of primitive villages. Its influence was due partly to the stationary character of Indian civilisation and conservative habits of Indian people and partly to the barter system of exchange which prevailed in ancient times. Rent and wages were determined by custom, and things were exchanged according to the customary rate. As civilization advanced and people increased in number there was struggle among them for existence. The customs could not remain unchanged for ever and competition manifested itself for the first time in the changed custom. Gradually competition acquired new strength till it became an important factor in modern organization.

Why custom played an important part.

Sec. 3. Economic advantages of village organization.

The advantages may be briefly described in the following manner :—

(*i*) Each village was a self-sufficient unit and used to produce by means of organization among themselves whatever articles might be required by them.

(*ii*) A crude form of division of labour *i.e.*, one based on caste system, was noticeable in such an organization.

(*iii*) There was a spirit of unity among the villagers. This was due to the fact that there was mutual exchange of services among them.

(*iv*) The Villagers used to live a peaceful life. They had few wants and they remained satisfied with the absolute necessaries of life; "plain living and high thinking" was their ideal.

Sec. 4. Defects of Primitive organization.

The primitive organization with all its merits was not free from defects. The defects inherent in such organization can be briefly described in the following lines.

(*i*) Self-sufficiency is no doubt desirable but there often comes a time when the importance of inter-dependence cannot be ignored. There is no such village where failure of crops has never occurred. In times of famine the self-sufficient village comes to know that it is impossible for it to go on without the help of other villages.

(*ii*) The division of labour which is based on Caste System does not on all occasions give very satisfactory results. Men belonging to one caste may possess aptitudes for the profession of another caste and in such cases society will be loser if the caste prejudices stand in their way.

(*iii*) As there was want of competition in primitive organization, society could not derive the benefit that followed from competitive production.

(*iv*) The barter system of exchange which was one of the characteristics of primitive organization caused inequitable distribution of the wealth of the village.

(*v*) The market for the commodities was narrow with the result that the economies of large-scale production could not be derived. The prices of commodities had little or no reference to the external demand and supply and the mobility of labour was almost absent.

Sec. 5. The Ancient Towns and their conditions.

In ancient India the towns were few in number. They were located at places which were either commercial centres, or places of pilgrimage, or seats of courts, or the capital. The ancient towns were Benares, Allahabad, Gaya, Puri, Delhi, Lahore, Poona, Lucknow, Tanjore, Mirzapore and Bangalore. Several industries flourished in some of these towns. Benares was considered the holiest land on earth: it was the seat of Sankrit learning and was also famous for its brass, copperware and bell-metal industries. In the capital towns luxury industries like textiles and embroideries showed an artistic skill which had no parallel in any other country. The organization of towns differed considerably from that of the villages. The population in towns depended upon the adjacent villages for the supply of staple food crops

and took to various trades and industries. The standard of living was slightly higher. There was considerable use of money and credit instruments.

Sec. 6. What is meant by a caste : the origin of the caste system.

A caste may be defined as a collection of families claiming a common descent and engaged in a specific occupation. Castes are divided into three main types, the functional, the racial, and the sectarian. The functional castes, include the Brahmins who follow the occupation of a priest and the various artisans having distinct avocations. The racial castes exist in almost all parts of the world. In Bengal there are the Chandals and the Rajbansi. The sectarian castes owe their origin to certain religious sects. Thus we have in Bombay the Lingayat caste founded by the religious leader, who did not recognise the superiority of the Brahmins. It is very difficult to assert dogmatically when the caste system came into existence. In the Vedas and the Puranas caste system has been referred to. This shows that caste system was prevalent in the Vedic ages. The Aryans might have adopted this system in their struggle to adapt themselves to the changing circumstances. James Mill says that castes must have been the outcome of the efforts of an individual who foresaw the advantages of division of labour.

Origin of caste system.

Sec. 7. Caste system : its merits and demerits.

We have seen above how important a part did caste system play in the organization of primitive villages. The population of a village was divided into a number of castes and it was the caste that determined the occupation of its members. Let us now discuss the merits of the caste system :—

(1) The division of the whole population of a village into a number of castes—each having a distinct profession—enabled the primitive society to enjoy some of the advantages of division of labour.

(2) The caste system was, roughly speaking, based on a sound principle. The son of a carpenter might possess by birth some talents which would enable him to prosper in the caste profession more easily than a person belonging to another caste.

(3) It afforded a great advantage for the training of persons in a particular profession. The children would come to know the secrets of the profession, which they must adopt, from their infancy.

(4) The restriction of marriages under the caste system was the cause of growth of healthy population and of the high standard of morality in the three higher classes.

(5) The caste system determined the occupation of people and solved in a manner the problem of un-employment. It accounted for group unity and enabled the Hindu society to struggle against political invasion.

The caste system in spite of the merits mentioned above disappeared in course of time on account of certain inherent defects. The defects can be briefly described thus :—

(1) The caste system which forces the members of a particular caste to adopt the profession prescribed for that caste, is prejudicial to the economic development of India because such a restriction on the choice of occupation means a waste of aptitude and energy.

(2) It checks the free mobility of labour which is necessary for the best utilisation of natural resources. As men belonging to one occupation are not allowed to move to another profession which demands an increase in the number of members the national dividend of the country will surely be less than what would have been the case in the absence of such restriction. This immobility of labour is also associated with immobility of capital and leads to the creation of non-competing groups which retard the economic progress of the country by prohibiting infusion of new blood in the hereditary professions.

(3) The principle underlying the caste system is unjust and inequitable because it does not allow the members of a lower caste to enjoy the honour and dignity attached to the higher profession.

(4) The caste system which leaves the development of Indian industry to the care of illiterate and inferior classes does not give proper scope for originality and invention. Under such a system the superior classes are lacking in a sense of dignity of labour.

The modern system of production requires sub-division of labour and the crude form of division of labour based upon an accident of birth hampers the economic progress of a nation.

(5) The caste system which absolutely fixes the supply of any kind of labour and does not allow the supply of labour to respond to the demand for it is unsuited to the large scale production. Hence modern system of organisation has based division of labour not upon the caste but upon efficiency of the workers. Again, in modern times there is freedom of occupation and men belonging to one caste can easily adopt the profession of another caste. In this way the rigidity of the caste system has been considerably modified.

(5a) The caste system has been responsible for certain social and political evils. Rigid restriction imposed on marriages leads to inbreeding and brings about racial deterioration. Again, as the supply of male members in a particular caste is not always proportionate to the supply of female members, great difficulty arises in securing suitable match. This leads to the evils of dowry, postponement of marriage, social corruption and infanticide.

(6) The caste system has retarded the growth of Indian nationnality by promoting class hatred which makes for social and political disunity.

Sec. 8. Caste guild : its functions.

In ancient India there existed an institution almost similar to the guilds of mediaeval Europe. Each caste was also a trade-guild which used to encourage the efficiency of the members of the guild and had supreme control over them. They regulated entrance of members and were organised on co-operative principles. Unlike the trade-guilds of mediaeval Europe the caste-guilds did not allow outsiders to be members of the guild and admission into a particular caste was entirely a matter of heredity. The caste-guilds used to play an important part in the economic organization of the country. Their contributions to the National Dividend could never be ignored. Such guilds are even now found in some parts of India but they have lost their former strength and cannot favourably be compared with the trade unions of modern Europe.

Sec. 9. The Caste system and Western Civilization.

Western civilization breaks the rigidity of caste distinction.

In modern times there has been a change in the angle of vision. The water-tight compartments into which people were divided on the principle of heredity produced serious evils and some degree of relaxation was urgently called for. The spread of western education and culture broke down the rigidity of caste system and made for a more wholesome atmosphere in which people came to enjoy an equality of status. The mobility from one group to another is now possible and we find that persons belonging to superior castes are taking to professions which their forefathers could not boldly adopt. The improvement of the means of communication has facilitated movement of labour from one part of the country to another and often people have to live in distant countries amidst an environment which does not permit the observance of rigid caste rules. The present political movement also does not favour the spirit which

pervades the caste system because it is inimical to the growth of Indian nationality. The political leaders have started a regular crusade against the caste system with a view to fighting out untouchability and restoring peace and equality.

Sec. 10. Economic transition of India : Village in transition.

The economic position of India differs from that of England. This is because in England industrial revolution made its first appearance as early as the middle of the eighteenth century while India is still in a state of economic transition. There are several other causes of this transition. The establishment of British Rule in India and their commercial and political activities lie at the root of this transition. Western ideas have been borrowed by the Indian people and the cultural conquest has changed the character of Indian life. Again introduction of foreign capital has reorganised the industries on Scientific lines and facilitated the utilisation of the vast resources of India for the benefit of foreigners. We shall now deal with the changes that have taken place in the organization of industries in recent times.

(*i*) Self-sufficiency of Indian villages has disappeared altogether and a spirit of interdependence has taken its place. This change has been due to the facilities of communication. Now it is possible for one village to depend upon another for the supply of articles in the production of which the latter has comparative advantages. This fact of interdependence has led to the extension of market and to the localisation of industries.

(*ii*) The facilities of communication have brought about another change *viz.*, the equalisation of prices. The same article is sold in different parts of India at the same price.

(*iii*) There is free mobility of labour from one occupation to another. The caste prejudices that restricted the choice of occupation in ancient India have been discarded and the profession of a person is determined not by the accident of birth but by the taste and talents that he possesses.

(*iv*) The administrative centralisation has taken away the autonomy which the village community enjoyed in former times.

(*v*) The growth of individualism has caused disruption of the old fabric of Indian society and this has told upon the corporate life of ancient villages.

(*vi*) Production is now carried on with the help of up-to date machinery and there has been division of labour in almost every industry.

(*vii*) The standard of living of the general mass of the population is higher than what it was in ancient times. Even the peasants of India cannot do without some of the articles which could be enjoyed by the rich alone in former times.

(*viii*) The barter system of exchange has given place to monetary system of exchange and people who get their income generally in terms of money can make the best and the most profitable use of any and every farthing that they possess.

(*ix*) One more peculiarity is the sudden transition from local economy to international economy. The Indian villages and towns can now exchange their raw materials for the manufactured produce of foreign countries and get many commodities at cheaper prices.

Sec. 11. Decay of ancient Industries : Its causes.

India had once reached the highest point in industrial success and had no rival in the world to compete with. In course of time many of these industries began to decline and had to suspend their work by the middle of the nineteenth century. The following causes intervened and hastened their decay.

(*i*) *The Disappearance of ancient Courts.*

Some industries flourished in towns where the courts of the great Mughul Empire were situated. The cotton and silk manufactures owed their pre-eminence to the patronage of these courts. The industries failed when with the downfall of the Mughul Empire the courts ceased to exist and the patronage was necessarily withdrawn.

(*ii*) *The Policy of the British Parliament.*

When the East India Company opened their trade marts in India they took to a policy of encouraging the industries of India. This policy of the Company met with serious opposition from England because it affected her economic interests. The British Parliament was moved and it came forward to help the English industries by the imposition of protective duties on woollen and silk manufactures. The East India Company was forced to change their policy of trade and became an exporter of raw materials on which the prosperity of British industries mainly depended.

(*iii*) *The Spread of Western Education and Culture.*

With the spread of western education and culture people of India began to imitate western fashion in the matter of dress and the result was that the Indian industries lost many patrons who formerly used Indian manufactures on an extensive scale.

(*iv*) *Competition of cheap foreign goods.*

As a result of the Industrial Revolution in England the English manufacturers could turn out commodities at a cheaper rate and supply the Indians with the articles they required at a cheaper price. This led to a loss of customers for Indian goods and hastened the ruin of Indian industries.

(*v*) *The Laissez-faire policy of the Government.*

The indifferent attitude of the Government of India and the policy of free trade which it followed till recent times have been responsible for the destruction of many handicrafts in India. The cheap manufactures of foreign countries began to usurp the Indian market but the Government of the country did not care to protect the Indian industries by the erection of tariff barrier. The result was that the handicrafts had to suspend their work although there was an immense prospect of success.

Sec. 12. Transition in Industries.

We have read in a preceding section the causes that led to the destruction of many ancient industries of India. The destruction of these industries caused a progressive ruralisation of the country till the middle of the seventies of the last century when India began to show signs of a transition from the purely agricultural country to a partly manufacturing country. With the revival of industries a number of industrial towns came into existence. Mills which used costly machinery were established in Bombay, Cawnpore and on the banks of the Hooghly. There was an influx of foreign capital and enterprise and these went to finance and control for the first time the plantation industries like the tea, coffee, indigo and jute estates. We are not here concerned with the evil effects of foreign capital and enterprise. Whatever their adverse influence might be we cannot, however ignore their educative influence on the growth of business enterprise in India. Cotton mills financed and managed by Indian capital and enterprises were established in Bombay by the middle of the last century. These mills began to produce clothes of various kinds to the prejudice of the Lancashire industry. The industrial revolution proceeded slowly and mining industries like coal, gold, iron and steel made their appearance within a few years. Some of these industries were at a disadvantage because of foreign competition and the Government of India had to adopt a policy of discriminating protection with a view to giving them adequate protection. The progressive industrialization of India has been an important fact but the progress has been very slow. This is

Revival of industries and investment of foreign capital.

because India is still in a transition and has not been in a position to have a complete revolution in the sphere of industries. Nevertheless, it cannot be disputed that modern India has attained considerable progress in industries. The statistics of foreign trade show that there has been a considerable rise in the export of manufactured articles and import of raw materials. Between 1879 and 1892 the manufactured imports rose from 25·9 to 35·2 crores or by 39 per cent. While the imports of raw produce increased by 91 per cent. In 1929-30 the proportion of manufactured exports to the total exports was 27·6 per cent. as compared with 23·1 per cent. in the pre-war period. The last great war has given a fillip to the export of manufactured goods and for this reason the percentage of manufactured exports to total exports has increased substantially.

Sec. 13. Transition in Agriculture.

The peculiar laws of inheritance which are in force in India have gradually led to sub-division of agricultural holdings but the methods of cultivation remain almost unchanged on account of the conservative habits of the people. The efforts of the agricultural and co-operative departments in introducing improved methods have scarcely attained any degree of success. Besides the progressive fragmentation of the soil, there are three other important features which deserve mention in this connection. First, there has been commercialization of agriculture. With the development of means of communication the market for non-food crops has extended and the agriculturists are taking increasing interest in the cultivation of commercial crops. One notable achievement in the present age is the large extent to which improved types of crops are being raised by the agriculturists. Another new feature is the specialisation of different provinces in the production of crops and their extensive and intensive cultivation. Secondly, the agriculturists have incurred a heavy debt which they can hardly repay. As a result of this the poor agriculturists have lost their right, title and interest in land and have now to take settlement at a higher rent. Thirdly, there is seasonal scarcity of agricultural labour. Although population is increasing every year we find that on account of extension of cultivation the supply of agricultural labour in India is not adequate and this tends to raise wages during the agricultural season.

Sub-division of holdings.

Sec. 14. Transition in Handicrafts.

The village handicrafts which used to supply the villagers with the various articles they required for daily use and followed the antiquated method of production have been painfully feeling the effects of indus-

trial revolution. The development of mill industry and the facilities of communication have brought within easy reach of the villagers the cheaper substitutes for the products turned out by the various village crafts. Now-a-days the villagers of Bengal depend greatly upon the cloths turned out by the cotton mills of Bombay and the weavers of Bengal have been forced to restrict their production to those commodities the demand for which is too small to invoke competition of the mills. The spinners are not in a position to withstand the competition of cheap yarns. The dyers have been seriously affected by the aniline dyes imported from foreign countries. The blacksmith has found in the market many cheap substitutes which are better than the Indian ploughs and implements. Many of these village artisans are gradually giving up their hereditary professions and are in search of better employment elsewhere. Those who still drag on their existence survive by adopting more scientific method of production which involves the use of better appliances.

Sec. 15. Growth of modern towns: its causes.

Industrial revolution in India has led to the multiplication of towns. Many new towns have been created as a result of concentration of industries. Bombay, Ahmedabad, Sholapur owe their present position to the localisation of cotton mills. Similarly, Jamshedpur has assumed an urban character on account of the expansion of iron and steel industry. It should be noted in this connection that industrialisation of India, though a principal factor in the development of towns cannot be taken to be the sole factor. There are other causes which we cannot ignore. One such cause is the growth of commerce and we find today a large number of towns which are big commercial centres. These include Bombay, Calcutta, Delhi, Madras, Lahore, Bangalore, Karachi, Cawnpore, Ahmedabad, Agra, Benares, Amritsar and Nagpur. The commercial importance of these towns is due to their favourable situation either at the vicinity of an important Railway junction or within easy access of important ports.

Destruction of rural industries and rise of a class of landless labourers have led to influx of population into towns where many new avenues of employment are to be found. Again, amneties of town life have attracted men of position from the rural areas. Middle class people have also to maintain an establishment in town in order to get their children trained in secondary schools and institutions of higher education. Administrative centralisation has led to the creation of a number of district towns where civil law and criminal justice are found to be administered by competent courts and various offices of the district carry on their allotted functions. All these factors have

combined to add to the number of towns and contributed to the growth of urban population.

Sec. 16. The Joint Family system.

This system is generally to be found among the Hindus in India. A group of persons may constitute a joint-family when they live together in the same building, dine and worship together, enjoy equal rights and privileges and possess a joint property. The joint family system has advantages and disadvantages.

What is meant by joint family.

(*i*) *Advantages*

(*a*) The most important of the economic advantages is that it makes cost of living cheaper. A family that contains twelve members can purchase the articles required for consumption in large quantities and therfore at cheaper price and has not to make separate arrangement for each particular member. The establishment charge in such families will not be twelve times higher than that incurred by a single person.

(*b*) A division of labour among the members with all its advantages is possible only in a joint family. One member may look after the management of the family property while others may get themselves employed elsewhere and increase the total income of the family.

(*c*) There exists a bond of unity and strangers will think twice before attacking a person who is living with several others in a joint family. Thus a joint family adds to the safety and security of life and property of the members.

(*d*) There we find mutual help and sympathy. A member who is ill or disabled will not be quite helpless inasmuch as he with his wife and children will be supported by the other members. Again, it creates a very wholesome atmosphere and the children that will be born in the family will have no opportunity of becoming selfish and mean.

(*e*) Equality of interest and disinterested motives to be found in a joint family bring domestic peace and happiness.

(*f*) The joint property of the family is enjoyed by all the members equally and can be managed easily and economically. The partition of family lands is avoided and production on a large scale becomes possible.

(*g*) The joint family helps the growth of self-discipline, sacrifice, obedience and reverence and similar other virtues which lead to perfection of mankind.

(ii) Disadvantages

(*a*) Since in a joint family one member can live comfortably without contributing a single pice to the expenses of the family he will not try to exert himself much for earning his own bread. Again, the very fact that the earnings of one member will be enjoyed equally by others who contribute nothing takes away from the able members the desire to make the best use of their ability. Thus, a joint family is likely to encourage idleness among the members and discourage the growth of capital.

(*b*) A joint family often gives opportunity to the selfish members to save everything that they earn while enjoying the fruits of labour of the unselfish members.

(*c*) It sometimes brings family discomforts occasioned by the quarrel among the different members; quarrels among the children often create a breach of peace in the family.

(*d*) The joint family property the management of which is entrusted to a single member may not be managed efficiently because the income will be enjoyed not by the manager alone but by the other members as well.

(*e*) The subordination of the members to the family head stands in the way of development of individuality and kills individual initiative and boldness in the sphere of economic activity.

Sec. 17. Why the system of joint family is dying out ?

Individual has taken the place of society.

In ancient society the unit was not the individual but the family. The members of the family had no separate existence; their interests were merged in that of the family. They were not allowed to do whatever they liked but had to be guided by the direction of the head of the family. Gradually the ties of blood-relationship upon which the system of joint family was based grew feeble and the individual came to be recognised as a member of the modern state.

In modern state the unit is not the family but the individual. The law now recognises the rights of individuals as distinct from that of the family. The members of the family have been given the right to have their shares in the ancestral property determined and to alienate them according to their free will. This change in the organization of modern state has given a death blow to the system of joint-family.

Again, there has been a change in the ideal of life. Formerly the ideal of the life was one of simple living and high thinking but present-day materialism has created a new atmosphere in which individual is

always trying to improve his own standard of living, economic and social position.

Another factor that has been responsible for the dissolution of the joint-family is the facility of communication. This has destroyed the family industry by helping foreign commodities to usurp the Indian market. This decay of the family industry has brought about a dissolution among the members of the family. The development of the means of communication has facilitated mobility of labour and the members of a joint-family have been forced to leave their home in order to earn their livelihood in a distant country.

Sec. 18. Laws of Inheritance.

In India there is no uniform body of laws of inheritance applicable to any and every person irrespective of the community to which he belongs. The laws of inheritance differ according to the different communities to be found in India. The Hindus are governed by the Hindu laws which are mainly based on the injunctions and principles of the *Sruti* and the *Smriti*. The Mahomedans, again, have their own laws of inheritance. The Christians are governed by the Indian Succession Act.

Hindu and Mahomedan laws of inheritance.

In discussing the Hindu laws of inheritance we shall have to deal with the two schools of law, *viz.*,—the *Dayabhag* and the *Mitakshara*. According to the Dayabhag school of Hindu law the right of the sons to the property of the deceased father accrues after the death of the father while according to the Mitakshara school, the right accrues from the time of birth, and on the death of a member the joint property passes to the other members by survivorship. The inheritance under the Dayabhag law is based upon the *pinda* theory and the nearest *sapinda* is always preferred to a more distant *sapinda*. Except in the case of *stridhan* properties, the female heirs have always a limited interest and the property passes on their death to the next reversioners.

The Mahomedan law of inheritance governs the Mahomedans. In this law too we find two different schools—(*i*) The Hanafi school, and (*ii*) the Shiah school. The former is applicable to the Sunni Mahomedans whereas the latter governs the Shiah Mahomedans.

The Mahomedan Law recognises a large body of heirs both male and female. Unlike Hindu Law this law allots a distinct share to the sons, daughters, parents, husband or wife. This law of inheritance has led to fragmentation of the land left by the deceased.

Besides the above two laws governing the two principal communities of India there is the Indian Succession Act lying down a body of rules

regarding the intestate succession of persons who are governed neither by the Hindu Law nor by the Mahomedan Law of succession.

Sec. 19. Economic effects of the Indian Law of Succession.

The Indian laws of inheritance and succession do not favour the devolution of ancestral property on one particular person but enunciate certain equitable principles of distributing the ancestral property among the near and dear ones of the deceased. This enables almost every member of the family to get something to start with and helps him in carving out an independent career for himself. In the absence of such an equitable principle of distribution the more fortunate members would live in affluence while others would be forced to live a miserable life. This equity in distribution contributes greatly to the economic prosperity of the country by stimulating individual enterprise. The evils of the laws cannot, however, be overlooked. First, the equitable principle has been responsible for the fragmentation and subdivision of the ancestral land and the agricultural industry cannot prosper on that account. Secondly, the peculiar laws of inheritance prevent the growth of capital with the result that large-scale industry can seldom flourish in India. The absolute dependence on the small patrimony is also fatal to the growth of industrial bias which alone can ameliorate the distress of Indian peasantry.

The good effects of the law.

The evil effects of the law.

Sec. 20. Religion and economic activity.

It is said that the Indians have a religious temperament and that this profoundly religious bias is in a way responsible for their industrial backwardness. The argument is that spiritualism and materialism cannot go together. But this contention is not supported by historical evidences. It is, however, indisputable that people of ancient India had an uncommon attachment for religion and philosophy but this did not take away the Indian mind from other spheres of human activity. Again, the Bhagvadgita which the Hindus regard as their gospel gives preference to a life of action and attempt a reconciliation between the spiritual and material aspects of life by preaching action without attachment. This proves clearly that the practice of religion did not in any way throw any obstacle in the path of economic progress. In fact the Indians did not remain inactive in the material world. They contributed greatly to the development of many important sciences and uptill the eighteenth century they could challenge all the leading nations of the west as regards advancement in the material

Religion is no bar to material progress.

world. Since then the Government of the country has taken an indifferent attitude towards the development of science and art and India which once flourished in the sphere of industry and culture has been driven to the background. Again. long domination by a foreign government has been responsible for a slave mentality which has characterised Indian people and stands in the way of economic progress. Besides, the general environment has undergone a severe change. The atmosphere of geniality, health and opulence has given place to a hot-bed of various devastating diseases. The outbreak of fell diseases is too frequent and they tell heavily upon the health and strength of the inhabitants. The Indians thus weakened by diseases can scarcely undertake a line of action which involves strenuous exertion.

Causes of industrial backwardness.

Sec. 21. People and their occupation.

People of India depend mainly upon agriculture for their subsistence. About 67 per cent. of the total number of workers are engaged in exploitation of animals and vegetation. The cultivators sometimes cultivate the land after taking settlement direct from the landlord but often we find that they have no permanent right in the soil but cultivate land under a temporary settlement from the intermediate tenure-holders. In the latter case they have generally to pay higher rent. In years of scarcity the agriculturists have to sell almost the whole of their crops in paying rent to the landlord.

Agriculture is the main occupation.

Besides agriculture, there are several industries which give occupation to the inhabitants of India ; but the number of people that are engaged in industries does not exceed 12 per cent. of the total population. The great majority of this industrial population are engaged in unorganised industries connected with the supply of personal and household necessaries and the simple implements of work. The number of industrial workers is rapidly increasing. We should note one outstanding fact that the supply of workers in the organised industries is not the same throughout the year. The Indian factory hand is generally a migratory individual who gets himself employed only when there is no work in the field and who never intends to stick to his job. This is the reason why the factory hands are generally inefficient.

Industries give employment to a few persons.

The handicrafts which are found to give employment to a certain percentage of the population generally turn out commodities to meet

local demands for them. These industries are generally carried on with antiquated appliances. These are losing their importance on account of the importation of cheap manufactured articles. Less than one million people find employment in the army, the Navy, the police, the services and the learned professions and liberal arts.

Sec. 22. Existing Social system : its effects upon economic progress.

With the spread of education and western culture in India we find a transition in the social sphere. The old rigid rules which no member of the ancient society could disobey with impunity have relaxed and we find in their place more liberal ideals of life. The rigidity of the caste system has been broken down by the disintegrating influence of western civilisation and heredity or the accident of birth has ceased to determine one's profession in life. People belonging to priestly class are now found to take to professions which their forefathers scrupulously avoided. There is free mobility of labour from one group to another and freedom of enterprise or economic freedom is enjoyed by almost every member of the society. Yet this social revolution has not been complete. The caste prejudices are still found to restrict the choice of occupation. We scarcely find a Brahmin who has given up his family tradition and cultivates the few acres of land he possesses. Again, we find several non-competing groups which still restrict the number of members and charge heavy entrance fees upon newcomers. The sphere of society has been widened by the opening of railways and other improved means of communication. The narrow-minded self-sufficiency has given place to a spirit of inter-dependence which makes for wider market and stimulates large-scale production. The standard of living of the general mass of population has improved considerably and this has purchased for them better health and strength. The spirit of co-operation is gaining ground gradually and this has provided the people with cheap and easy credit and enabled them to solve many a problem of vital importance.

Disintegrating influence of western civilisation.

This transition in social life has not been an unmixed blessing. The disruption of old fabric of society and the system of inter-caste marriage have been responsible for the deterioration of the higher races. The growth of individualism has been associated with a spirit of selfishness and the earnings of successful members are scarcely available for the benefit of those who are disabled or otherwise helpless. The standard of living has often been raised in respect of dress and we often find poor people sacrificing their food to the deteri-

Evil effects of Social transition.

ment of their health and strength for a momentary pleasure or vain show. The social transition has not changed the outlook of life. The people belonging to the higher castes are still lacking in a sense of dignity of labour and have got no industrial bias. Even the children of the lower castes who have got only a smattering of education are found to abhor all kinds of manual exertions. Indeed, this attitude is not at all commendable and is inimical to economic progress. The abolition of the Pardah System has destroyed domestic peace and the existing rivalry between men and women has complicated the problem of unemployment. The system of early marriage which still prevails in the lower strata of society leads to needless multiplication of children and the minutest subdivisions of family holdings ; on the other hand, the artificial method of birth control which is now taken recourse to by the married couple belonging to the artistocratic section of society at the cost of their health and strength has resulted in a race-suicide with all its serious consequences.

Questions and Answers.

Q. 1. Characterise briefly the economic transition in India. (C. U. 1912.)

Ans. *See*—Sec. 8.

Q. 2. Examine briefly the institutions of joint family and caste ; discuss fully their economic effects. (C. U. 1920.)

Ans. *See*—Secs. 8 and 16.

Q. 3. What are the economic effects of law of succession prevalent in India. (C. U. 1924.)

Ans. *See*—Sec. 19.

Hints : The equitable distribution among children encourages idleness—brings about family discords—stimulates spirit of litigation—causes fragmentation of lands—large-scale production becomes impossible—incidental expenses of fencing.

Q. 4. What are the effects of development of communications on the internal economy of villages. (C. U. 1928.)

Ans. *See*—Sec. 10.

Q. 5. Discuss the nature of the Joint family in India, and explain its economic significance. What are the factors that tend to break it up in modern times ? (C. U. 1930.)

Ans. *See*—Secs. 16 and 17.

Q. 6. Discuss the economic effects of the Joint family and caste system in India. Would you advocate the abolition of these systems ? Give reasons for your answers. (C. U. 1931.)

Ans. *See*—Secs. 8 and 16.

Q. 7. What is the origin of the caste system? Discuss how far it is unsuited to the structure of modern society and show how under the stress of modern economic conditions the rigidity of the old caste-system has been considerably modified. (C. U. 1919.)

Ans. *See*—Secs. 8 & 9.

Q. 8 Discuss the economic advantages and disadvantages of the caste system in India. (C. U. 1933.) (Cal. B. Com. 1935.)

Ans. *See*—Sec. 8

Q. 9. Examine how far the existing social system of India helps or hinders the economic progress of India. (C. U. 1916) (B. Com. 1930.)

Ans. *See*—Sec. 22.

Q. 10. Describe the important features of the social structure of the people of India. (C. U. 1938.)

Ans. *See*—Secs. 7 and 16.

Q. 11. Examine the influence of social institutions on our economic life. (C. U. 1942.)

Ans. *See*—Sec. 22.

CHAPTER VI

PRODUCTION

Sec. 1. The Condition of Indian Land.

Production cannot be carried on except with the assistance of these four agents *viz.*, land, labour, capital and organization. We shall discuss in this chapter the nature and character of each of these four agents that influence production in India.

The four agents of production.

(*i*) The term 'land' is used in Economic Science to mean resources of nature. It includes not only agricultural and building lands but also other natural resources such as mines and water courses.

We shall for the time being concentrate our attention to the study of the nature of agricultural land. India being an agricultural country the quantity and quality of the land available for cultivation must be studied first of all. With regard to the supply of land available for cultivation we can say that the supply can be increased to some extent. In fact the areas under cultivation are going on increasing. There are still certain fallow lands and certain cultivable wastes to which

cultivation can be extended. The amount of such lands which may be available for cultivation is not less than 170 million acres.

Next, we turn to inquire into the quality of the land. By the quality of the land we mean its fertility. The fertility of the land is a relative term. The land which is now sterile may be turned into a fertile one if sufficient amount of capital has been invested in it ; but we should remember in this connection that it is the artificial properties of the soil that are amenable to improvement by chemical processes but there are other natural properties which cannot be improved by human beings. As a result of the loss of natural properties the Law of Diminishing Returns is operating in agriculture.

Again, the Indian peasants, poor as they are, are not in a position to improve the artificial properties of the soil by the application of manures. The intensive cultivation is almost absent in India. All these facts have been responsible for the insufficient returns from the Indian soil.

Sec. 2. The Condition of the Supply of labour.

In the previous section we have dealt with the nature of the supply of land and in the present section we shall consider the nature of the supply of another important agent *viz*. labour. The supply of labour can be increased in two ways—(1) by increasing the number of labourers and (2) by improving their efficiency. The former method is intimately connected with the growth of population and has been expressly denounced by Malthus on the ground that it will ultimately lead to misery, famine, war and pestilence. Although the Malthusian doctrine of population has been restricted in its operation in these days of efficient production and international trade yet it still holds good in countries like India where the efficiency in production cannot keep pace with the increasing population.

How Malthusian doctrine holds goods in India.

The growth of population is to be studied with reference to the birth-rate and the death-rate in the country in question. The net growth is given by the excess of birth over death. Taking into consideration both these factors we cannot say that the net increase in population in India is larger than that in European countries. Though on account of the system of early marriage which is prevalent here in India the number of children born is larger in India than in the Western countries, it is not true to say that all the newly born children go to increase the existing stock of population. We are to take into account the death-rate which is also higher in India than in

How to determine the growth of population.

the Western countries and are to deduct the death-rate from the birth-rate. When such deduction has been made from the birth-rate of India, what remains is the net increase to the stock of population. The net increase per 1000 of population is only 5 in India while it is 10 in England, but the two countries are not equally prosperous and the result is that England can maintain the increased population easily while in India the net increase in population, however small, has the effect of lowering the standard of living.

Sec. 3. Population : its density.

Population in British India and in native States.

From the latest Census (1941) it appears that the total population of India including both British India and the Indian States is 388,800,000. The British India contains 295,800,000 and the Indian States 92,900,000. The people live in an area of 1·57 million square miles which represent the total area of British India as well as of the Indian States. In 1931 census the population of India including Burma was 35·2 crores while in 1941 census the population of India and Burma was 40 crores. There was thus an increase of 5 crores of population within the brief space of ten years. The census of 1941 records an increase of 15 per cent. The population, is not however, equally distributed. In some parts the population is sparse while in others there is thick population. The most thickly populated tracts are the level plains in Bengal, eastern United Provinces and in the southern part of the Peninsula. Generally, lands which are fertile and where rainfall is regular and certain have attracted a large number of people and this in a way accounts for the density of population in Bengal and United Provinces. Nevertheless, India, a purely agricultural country as it is, cannot afford to support as big a population as that of highly industrialised country of the West. The average density of her population is low. According to the Census of 1941 the average density over the whole of India is 248 to the square mile while the average density is 649 in England and Wales. In Bengal, however there is even higher general level of density ; in 1941 Bengal had a mean density of 742 per square mile.

Sec. 4. Population in Towns and Villages.

The majority of the population live in villages.

The population of India has been distributed between towns and villages. The preponderance of agriculture has led to an aggregation of population in villages and in India there are as many as 685,260 villages. The total number of towns is 2675 containing only 13 per cent. of the Indian population and the rest of the population live in villages. This comparative fewness of towns

shows clearly that Industrial Revolution has not been complete in India. Of late, the towns are growing in number. Between 1911 and 1921 the towns with a population of above 50,000 have increased by more than 16 per cent. The Census of 1941 also reveals a rapid urbanisation of modern India which is principally due to increasing pressure on land. It also records an increase of 2 per cent. in urban population since 1931 Census.

Sec. 5. Causes of high birth-rate.

It is an indisputable fact that the birth-rate is higher in India than in the western countries. Now what are the causes of this difference in birth-rate ? We can attribute this difference in birth-rate to a number of causes. The most important of these causes is the climatic condition. In a country like India where there is warm climate, puberty is attained at comparatively early age. The attainment of puberty at an earlier age coupled with the religious belief of the Hindus that the daughters should be married before the attainment of puberty, has been responsible for the early marriage in India. A belief is also common among the Hindus that sons must be begotten to secure salvation. Again, the low standard of living, the less expense of bringing up children and the unselfishness of parents have been other causes of early marriage in India. The high birth-rate in India is due to this custom of early marriage. Again, Biology tells us that poverty and fecundity go together ; birth-rate is, therefore, higher among the poor section of community. In 1939 the births per 1000 was 33·6 as compared with 15·5 in the United Kingdom.

Sec. 6 Causes of high Death-rate.

We have seen above that though the birth-rate is higher in India than in western countries, the net increase in population is smaller. The actual increase between the year 1931 and the year 1941 was 15 per cent. The reason is that high birth-rate is accompanied by a high death-rate. There are several important causes of this high death-rate.

(1) The consummation of marriages—when the married couple are very young leads to the premature birth of some children who die shortly after their birth.

• The infant mortality is abnormally higher in India than in any civilized country ; about 20 per cent. of the children born in India die before they complete the first year of their existence.

(2) The early marriage is reponsible for the death of females at their productive age. Often we find that females suffer from various

diseases and they are in dying condition after they have given birth to a dozen of children.

(3) The insanitary conditions of living and want of proper nourishment take away the power of resistance of people and diseases like malaria, plague and influenza hasten their untimely death.

(4) In India we find that the mothers are ignorant of the method of nursing. The mothers are often engaged in their domestic works and cannot find enough time to look after their children. Sometimes children are drugged with opium during the time when the mothers are engaged in a factory work.

(5) Famine is another cause of the high death-rate in India. Famines occur more frequently because agriculture which is the principal industry in India has to depend more or less upon heaven for the supply of water.

Sec. 7. The Growth of Population and its Evils.

India suffers greatly from over-population.

In spite of the slow growth of population India is suffering a great deal on account of over-population. The Malthusian doctrine of population which does not apply to countries which have improved their efficiency in the sphere of industry has its operation here in India. The population is going on increasing but the efficiency of production is not being improved to keep pace with this increasing population. The result is that every net increase in population has the effect of increasing the pressure of population on land. The people of India must be fed out of the food-stuffs produced from the Indian soil. This pressure of population on land has already led to the operation of the Law of Diminishing Return. Moreover, the situation has been aggravated by an increase in the export of food-stuffs from this country. The prices of food-stuffs have increased considerably but the income of the people has not risen proportionately. Again, an increased supply of unskilled labour has complicated the problem of unemployment and the reduction of wages has been the consequence.

Sec. 8. Preventive and Positive Checks.

Malthusian theory holds good in India.

Malthusian theory of population may not hold good in a country which is flourishing in the sphere of industry and is thus in a position to feed the increasing mouths ; but the theory applies in a country like India where people depend mainly upon agriculture and the pressure of population falls upon the land the supply of which is fixed by nature. The evils of over-population, says Malthus,

can be remedied when people take recourse to preventive checks. In the absence of these checks the positive checks will surely manifest themselves. Let us now see how far the preventive checks are present in India. These various checks may be described as follows :—(i) Postponement of marriage or vow of celibacy, (ii) lower productivity per marriage, (iii) prolonged lactation, (iv) polygamy, (v) poverty, (vi) and infanticide.

Postponement of marriage.

Postponement of marriage avoids the chance of rapid multiplication of children. This is very rare in India. Among the Hindus marriage takes place when the married couple are too young to bear the responsibilities of a married life because of the religious belief that the daughters must be married before they attain puberty. The Muhammedans are also found to follow the Hindus in this respect. Celibacy is condemned in strong terms and the Hindu Shastras enjoin that a Hindu must marry and beget sons to avoid damnation. In modern times, however, there is a tendency among the educated classes to postpone marriage till the sons are in a position to earn a decent income, but the number of those conscientious people is very few and the effect of such postponement is negligible.

Indian woman and English woman compared.

It is said that the fertility in the case of a married woman of reproductive age in India is less than that in the case of married woman in England An Indian woman during her reproductive period is capable of giving birth to smaller number of children than an English woman ; but on account of the postponement of marriage the English women do not produce as many children as the Indian women do and this accounts for a higher birth-rate in India. The deliberate abstinence to avoid multiplication of children by artificial method is being practised among the middle-class people but its effect on the growth of population is not considerable.

Prolonged lactation.

Prolonged lactation is, as the medical authorities tell us, accompanied with decreased conceptivty. In India the mothers are affectionate and allow their children to feed themselves at the breast for a longer period of time. This practice goes to restrain the growth of population to a considerable extent.

Polygamy.

Polygamy is another pernicious custom which is in vogue in some parts of India. Some people who are proud of their social status are found to marry a number of women whom they can visit on rare occasions. For this reason the unfortunate women get very few chances of multiplying

children. This check on the growth of population is however negligible.

Poverty sometimes defers marriage among the middle-class people. The poor parents cannot manage to marry their daughters at an early date, because they cannot procure the dowry which they must pay to the bridegroom. The bridegrooms, again, are not ready to marry unless they are settled in life. It is however, equally true that poverty sometimes leads to reckless marriage and careless multiplication of children.

Poverty and postponement of marriage.

The heavy expenses which the poor parents have to incur during the marriage ceremony of their daughters destroy the affection which the parents may possess. Sometimes poverty hardens their hearts and they do not hesitate to kill the female children as soon as they are born. The poor women are also found to take to deliberate abortion in order to avoid the trouble and expenses of childbirth. These evil practices have been discouraged by the combined forces of law and public opinion.

Deliberate abortion and killing of female children.

From what we have said about it follows that although preventive checks, voluntary and involuntary are present in India, their combined effect upon the growth of the population is not considerable. The result is that production cannot keep pace with the increasing population and positive checks manifest themselves in the shape of diseases, war, pestilence, famine and cause untimely death of thousands of people.

Sec. 9. Over-population and Indian Poverty.

When we examine the conditions of the Indians one important fact that attracts our attention is their appalling poverty. There are critics who ascribe this poverty to over-population. This dogmatic assertion cannot command unqualified support. True it is that over-population is one of the causes of Indian poverty. The population is going on increasing every year but the net supply of food and other necessary articles is not keeping pace with the increasing population. The pressure of population on land has already led to the operation of the Law of Diminishing Return and this has affected seriously the economic position of the people. It is equally true that poverty sometimes leads to reckless multiplication of children and intensifies the evils of over-population. From these facts it will be erroneous to conclude that over-population lies at the root of Indian

Over-population is not the sole cause of poverty.

poverty. The existing resources of the country, if properly and scientifically worked can be made to support a larger number of men. Again, there are industries which are suffering greatly for want of efficient hands. Even agriculture which is the principal industry in India does not follow the up-to-date method of scientific cultivation and the people engaged in it are illiterate and conservative. Again, the capital invested in this industry is scarcely sufficient for intensive cultivation. The absence of industrial bias is another important factor. People remain idle for the major portion of the year when there is no work in the field to do. They are inefficient and cannot be profitably employed in manufacturing industries. The heavy export of agricultural produce including foodstuff, and the absence of devolopment of the manufacturing industries are also in a great measure responsible for poverty of the people. The wage-earners in India are at a disadvantage in bargaining and are not paid the wages they deserve according to their efficiency. The independent producers also cannot wait for the better price of the products and are often forced to sell their products to the middlemen who earn decent profit out of of their transactions. The pernicious social customs and the litigious spirit of the agriculturists are also important causes of Indian poverty. Thus we see that poverty of the Indians is due to a number of causes and it is very difficult to point out the root cause.

Sec 10. Suggested Remedies of Over-population.

Remedies that have been suggested for overcoming the misery due to over-population.

Several remedies have been suggested to remove the miseries due to over-population. This may be briefly stated thus—(1) The equal distribution of population among the different parts of India. (2) Cultivation of waste lands. (3) Extension of irrigation. (4) Emigration of population to other parts of India. (5) The introduction of up-to-date methods of production. (6) Industrialisation of India. (7) Moral restraint, (8) use of contraceptives.

Want of mobility.

With regard to the first remedy we can say that equal distribution of population in all parts of India is not possible nor will such distribution remove the miseries due to over-population. Each part of India is not equally prosperous to feed an equal number of mouths. Again, the movement of labourers from one part of the country to another takes place very rarely. Although such mobility of labour has been facilitated by the present system of communication, the conservative habits of the people and the want of enterprise have made

movement of population almost impossible. In recent times there has been, however, some movement of population from one province to another and the Government of the country is in favour of abolition of restriction on inter-provincial movement.

Extension of cultivation.

The second remedy *viz.*, the extension of cultivation, may improve the condition of the people but considering the vast population of India this remedy will not be of practical importance.

Extension of irrigation.

With regard to the third remedy *viz.*, the improvement of irrigation system of India, the Irrigation Commission has opined that there are parts of India where "the utmost use of every available means of irrigation will fail to afford complete protection against the failure of rainfall."

Emigration of population.

The fourth remedy *viz.*, the emigration of population to other parts of the world might have some importance in ancient times but in view of the present state of things and the humiliation to which the emigrants of India to foreign countries have been subject, it is advisable that this remedy should not be taken recourse to. The Emigration Act of 1922 has permitted emigration only to Ceylon, the Straits Settlements and on a small scale to Mauritius. The actual number of Indians at present settled abroad is about 2,610,000. Ceylon alone gives shelter to about 33 per cent. of the total number of emigrants. The emigration of indentured labour was stopped in March, 1917 and since then emigration of Indian labour to other parts of the country has diminished substantially.

Up-to-date method.

The fifth remedy is important inasmuch as it will lead to an increase in quantitative production. India can improve its economic condition in a great measure by adopting the up-to-date methods of production.

The industrialisation of India is the proper remedy.

The sixth remedy suggested in this connection is industrialisation. The misery of India is mainly due to the fact that 70% of the population depend absolutely upon agriculture for maintenance. Every increase in population means an increased pressure upon the means of subsistence.. If the people can improve their efficiency both in agriculture and in manufacture the increase in population will cease to be a danger to the material prosperity of the country.

When all the above remedies have been resorted to but cannot check the evils of over-population we must take recourse to the last

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two remedies with a view to limiting population. The moral restraint is no doubt the best method of checking the growth of population ; but we will be too optimistic if we ask the married couple to live separately and wait for ready response. The only other alternative is the use of contraceptives which will enable the married couple to control the birth of children without controlling the passions. The use of contraceptives has yielded satisfactory results in Europe. In India the rich and the more intelligent people have been found to make use of contraceptives with a view to maintaining their standard of comfort, but the poorer sections of the community remain unmoved and continue to multiply children without any fore-thought. Again, wide dissemination of knowledge of contraceptives and universal application of such artificial method will prove a menace to national safety.

It has sometimes been suggested that an elaborate economic planning with a view to raising the standard of living will lead to optimum population. This is not true. Economic regeneration cannot by itself check the growth of population. This defect is apparent in the Bombay Plan. If economic planning brings better nutrition for the people the positive checks to the growth of population will fast disappear and the population will grow more rapidly. Economic planning must be associated with a plan for reducing population. Voluntary control of births, the postponement of age of marriage, sterilisation of the idiots and the diseased, and the use of contraceptives should be encouraged.

Sec. 11. The Nature of the Supply of Industrial labour: Causes of their inefficiency.

Though the supply of unskilled labour in India is very large, India suffers greatly for want of efficient labourers. This diminution in the supply of efficient labourers is a great obstacle to the industrial development of India. The Industrial Commission has attributed the inefficiency of the Indian labourers to the following causes :—(1) absence of education amongst Indian artisans, (2) their low standard of living, (3) their poor health, (4) their migratory character, (5) their heterogeneity.

The causes of the inefficiency.

In India there is scarcely any sharp line of demarcation between agricultural labour and industrial operative. Here we do not find an urban proletariat. The supply of industrial labour is great when the agriculturists have no work to do in the fields. These agriculturists come to the towns and get themselves employed in some factory till the approach of rainy season. The period of service is too short to

Characteristics of Industrial labour.

enable the industrial labourers to acquire efficiency in their work. Again, this migratory character prevents industrial labourers from developing a sense of responsibility and thereby seriously hampers the progress of the industries. Sometimes the climate of the industrial areas and the system of the artificial humidification generally effected by letting in stream or by the use of impure water tell upon the health and strength of the workers. They have to work continuously for hours together and this brings a monotony in life.

The labourers are bewilderingly heterogeneous.

Again, the industrial labourers are bewilderingly heterogeneous. In an Indian factory the labourers are often drawn from various parts of the country and the result is that they differ profoundly in race and caste and creed, but in spite of this difference they have to yield to the uniformity of factory laws and have to spend their hours with associates whose coversation they cannot understand. This heterogeneity has always hampered the growth of an organisation of labourers. True it is that there are trade unions but the leaders have comparatively little hold over the uneducated and migratory labourers who differ in race and religion.

Their illiteracy.

In India the labourers are illiterate and as such are not in a position to benefit themselves by the industrial knowledge which the Government of India has according to the recommendation of the Industrial Commission, undertaken to spread. Again, the number of technical schools and colleges is quite insufficient to afford adequate facilities for the training of industrial labourers.

The low standard of living.

The low standard of living is also a very important cause of the inefficiency of Indian labourers. The Indian labourers cannot afford to consume sufficient quantity of nutritious food and live in wholesome dwellings. In consequence they are frequently attacked with diseases like malaria, cholera. kala-azar and become incapable of undergoing strenuous exertions. The labourers are to work for many hours and as their inferior physique cannot bear the strain they take to the unscrupulous device of listlessness which in a way accounts for their bad workmanship.

The inefficiency of labourers is sometime due to racial degeneration brought about by allowing the weaklings to perpetuate their stock. A scientific scheme of eugenics based on careful observation and experiment will go to improve matters.

The inefficiency of the industrial labourers is often the result of the antiquated method of production. The Indian manufacturers,

poor as they are, cannot provide themselves with the up-to-date and costly appliances and this accounts for their lower *per capita* production.

The system of recruitment of industrial labourers has certain effect upon their efficiency. In industrial towns we find the practice of employing workmen through Foremen and Sardars. These people generally exact commission from the employees who have to enter into a contract with these jobbers for payment of such commission before they can get themselves employed in a factory. This system of employing labourers increases the difficulties of securing efficient workers.

The system of recruitment.

The misery of industrial labourers has also been caused by the method of payment of wages. In some industrial towns the wages are paid on the fifteenth of the month following the one for which wages are earned. The result is that a new employee has to borrow money from the Sardars in order to meet his expenses for one month and a half. The Sardars realise both the principal and interest from the monthly wages. The employee cannot meet his expenses with the few coins that are handed over to him and is forced to approach the Sardar for a fresh loan. The result is that the labourers can scarcely clear up their debts and are forced to live a life of misery. The Payment of Wages Act, 1936 makes provision for regular payment of wages to the labourers and further provides that no wage period shall exceed one month.

The method of payment of wages.

Another factor that adds to the misery of the industrial labourers is the system of fines which are imposed upon the operatives for bad workmanship and loss of materials or damage of machinery.

Sec. 12. How to Improve the Condition of Industrial Labour ?

Attempts must be made to remove the miseries of factory life by making adequate provision of medical aids, proper sanitary arrangement, bathing facilities, maternity benefit, improved housing, schools for scientific training, workman's insurance and labour exchanges. The Social Service League and similar other organisations should direct their attention to these problems. The employers should encourage all institutions of welfare work. The Improvement Trust should be established in each industrial town and undertake the responsibility of constructing sanitary dwellings for the workmen. The railways and other public

Various ways of improving the condition of labourers.

bodies should provide their employees with suitable dwellings. To avoid further congestion, the Provincial Governments should refuse permission for the establishment of new industrial concerns in the hearts of towns. They should, as the Labour Commission recommended, make a survey of the urban and industrial areas with a view to ascertaining their needs with regard to housing. They should prescribe a minimum standard as to cubic space, water-supply, ventilation, etc. and cast upon the Improvement Trust an obligation to provide the workmen with adequate dwellings. They should also encourage the creation of co-operative building societies and pass suitable town-planning Acts. Land Acquisition Act should be so amended as to authorise the Industrial concerns to acquire land for the erection of suitable houses for workers.

The employment of female labour should receive particular attention. Maternity Acts should be passed in all provinces with a view to enforcing the payment of allowances to female workers during their confinement.

Need of elementary education.

The spread of elementary education among the industrial workers is urgently necessary. Education will help them in understanding their rights and responsibilities and improve their general ability. They will realise what united efforts can do for them and in this way trade unions will be formed which will exact from the employers such wages as the workers deserve. Education will bring in wholesome atmosphere; workmen will gradually learn how to make the best use of their humble earnings and reduce their expenditures on drink.

Co-operative organisation.

The growth of the spirit of co-operation among the independent workers will enable them to purchase raw materials in large quantities and to carry on production with up-to-date appliances which they will be in a position to purchase with joint funds. Co-operative Stores will enable them to purchase their necessaries at cheaper prices. In this way efficiency of the independent workers will increase.

Improvement in methods of recruitment and payment.

Steps are being taken by the managers of factories to abolish the system of recruitment of labourers through jobbers and overseers. The methods of payment of wages and realisation of fines should be improved. Care should also be taken to provide the labourers with the best kinds of appliances and the best materials. The wages of labourers should be raised when such rise is justified by the contribution of labourers to production.

The indebtedness of the industrial workers is another drawback

which makes the position of the labourers worse. Steps should be taken to restrict these unproductive loans as far as practicable. In this connection the Government may with advantage follow the recommendations of the Labour Commission regarding the exemption of certain minimum salaries and of provident funds of the workers from attachment.

Restriction of unproductive loan.

In India the labourers have little or no reserve fund. They cannot wait and must accept any wages which their employers are pleased to offer them. They are to work hard but they are paid very low wages. They are quite helpless victims at the hands of the employers. The illiteracy of the labourers has been responsible for the slow growth of Trade-Union Organization. Under these circumstances the Government cannot but intervene and make laws regulating the employment of labourers. Accordingly, we find that the Government of India has passed a large number of wisely framed and effective measures, such as the Factories Acts of 1881, 1891, 1911, 1922, 1929, and 1934, the Mines Act of 1901 and 1923, the **Workmen's Compensation Act** of 1923, the Trade Union Act of 1926, the Trade Disputes Act of 1929, the Payment of Wages Act, 1936. The Congress governments during their short career fully understood their responsibilities for the welfare of the industrial workers and issued a policy and programme of work which constituted an undertaking to "secure to the workers a decent standard of living, hours of work and conditions of employment in conformity, as far as the economic conditions permit, with the international standards, suitable machinery for the settlement of disputes, protection against the economic consequences of old age, sickness and unemployment and the right of workers to form unions and to strike for the protection of their interests."

Government measures.

Labour legislations.

Sec. 13. Factory Legislations in India.

As in other countries so also in India the necessity of factory legislation has been keenly felt to check the employment of children and women and to promote better conditions of work. If there is no law to regulate the employment of children and women the economic prosperity which is intimately connected with the health and strength of the population is surely to be at stake. The employment of children who are too young to bear the strain of factory work will undoubtedly undermine their efficiency and bring about their premature death. The employment of women without any

The restriction on the hours of labour.

regulation as to the time and hours of work will bring moral degeneration and militate against their maternal instincts. Moreover, the regulation of the hours of work is necessary not only in the case of children and women but also in the case of adult persons. The restriction on the hours of labour is sure to improve the efficiency of the labourers. In India the factory legislations have been mainly due to the efforts of the Government. Several Acts have been passed in India with a view to regulating the hours of work and condition of employment. Let us have a brief account of the provisions of these Acts.

The factory Acts of 1881 and 1891.

The first Factory Act which was the outcome of a factory commission appointed by Bombay Government was passed in 1881. The provisions of this Act related to the employment of children alone. The Act was followed by the Act of 1891 which regulated the conditions of employment till 1911. The Act of 1891 included within the term 'factory' any premises in which mechanical power had been used for not less than four months and which employed not less than 50 labourers. The Act empowered the local Government to alter the above definition of factory and to appoint surgeons for certifying the age of children and inspectors to supervise the work of factories. The hours of labour were reduced to 11 hours with intervals of rest amounting to at least an hour and a half. The employment of women between 8 P. M. and 5 A. M. was prohibited. The children who were below the age of 14 years could not be employed during the night time and the hours of work were limited to 7. The children who were below the age of 9 years could not be employed. The Act also provided for the adequate fencing of dangerous machinery.

The Act of 1911.

The Act was repealed by the Act of 1911 which was passed mainly with a view to checking the abuses of cotton mills as represented by the Lancashire manufacturers ; the Act of 1911 altered the definition of factory so as to include within it factories other than those already included. It imposed for the first time special restrictions on the employment of adult labourers in any textile factory. The hours of labour for such labourers were limited to 12 every day. This Act also restricted the hours for which children and women could be employed. The children could be worked for six hours a day and must produce the age-certificate.

The Act of 1922.

Then came the Act of 1922 which revised the whole law on the subject. The definition of a factory became wider and came to include all power-using factories employing not less than twenty persons. Next comes the Factory Act of 1934 which defines the factory so as to include premises whereon

20 or more workers are working and on any part of which a manufacturing process is being carried on with the aid of power. The Act which is based on the report of the Royal Commission on Indian Labour provides for the appointment of inspecting staff and certifying surgeons

The Factory Act of 1934.

and makes detailed provisions for securing cleanliness, ventilation in factories and for providing the factory workers with pure drinking water and sanitary latrines and urinals. The Act prescribes the maximum hours of work. The hours of work for an adult worker engaged in a factory shall not exceed fifty-four hours in any week. Hours of work per day were restricted to certain special cases; in case of seasonal factories the maximum period shall not exceed sixty hours in a week. No adult worker shall be made to work continuously for six hours without an interval for rest of at least one hour. No woman shall be allowed to work in a factory except between 6 A. M. and 7 P. M. No child who has not completed his twelfth year shall be allowed to work in any factory. No child who has completed his twelfth year and no adolescent (*i.e.*, person who has completed his fifteenth but has not completed his seventeenth year) shall be allowed to work unless he has been given a certificate of fitness. No child shall be allowed to work in a factory for more than five hours in a day.

Workmen's Compensation Act of 1938.

Another important piece of legislation was passed in 1940 which extended the provisions of the Act of 1934 to children employed in power factories engaging from 10 to 19 persons. Another Act which has been passed with a view to ameliorating the miseries of the labourers is the **Workmen's Compensation Act** of 1923 as amended by the Act of 1933 and the Act of 1938. The last Act has enlarged the scope of the previous Acts so to include the cases of liftmen and persons employed in tapping palmtrees. This Act confers upon the labourers other than agricultural labourers and domestic servants a right to compensation in all cases of personal injury by accident and in cases of certain industrial diseases aud also prescribes the amount of compensation. In case of fatal accident involving death of an adult compensation may vary from Rs. 500 to Rs. 4000 while the compensation for the death of a minor has been fixed at Rs. 200.

Another important piece of legislation is the payment of Wages Act, 1936 which provides for payment of wages within seven days from the conclusion of the wage period and controls the illegal deductions often made by the employers out of the wages of labourers.

With the inauguration of provincial autonomy in India the provinces in which the Congress Ministry were set up took seriously into consideration the problems of labour and appointed several Inquiry

committees. The C. P. Government and the Bombay Government passed the unregulated Factories Acts which extended the operation of a few sections of the Factory Act of 1934 to certain unregulated factories. In Bengal we find the regulations of employment of shop assistants and the compulsory grant of holidays ($1\frac{1}{2}$ days per week).

Sec. 14. Labour Legislation in Mines and Railways.

The Act of 1928.

The Indian Mines Act of 1935.

With the growth of mining industries the number of labourers engaged in them increased rapidly. This necessitated certain regulations and these were embodied in the first Indian Mines Act of 1901. The said Act operated till 1923 when another Act was passed to introduce further reforms. The Act of 1923 widened the definition of mine and restricted the hours to sixty per week for workers above ground and to fifty hours for workers underground. A child who was defined as a person under the age of thirteen years was not allowed to work below ground. The Act of 1923 was followed by an amending Act in 1928 which restricted the employment of the same set of workmen to 12 hours a day and authorised the mines to introduce a system of shifts of twelve hours. The Indian Mines (amendment) Act of 1935 has raised the minimum age for employment in a mine from 13 to 15 years and reduced the hours of work above ground to 54 hours weekly and 10 hours daily and the hours of work below ground to 9 hours daily.

Further amendments in the Act of 1923 are to be found in the Act of 1936 which provided for greater safety for the workers by investing in the inspectorate powers of control against premature collapse of any part of the mine. The next Act is the Indian Mines Amendment Act of 1937 which gave effect to the recommendation of the Coal Committee by authorising the inspectorate to control the extracting of coal from the pillars. Next came the Coal Mine Safety (Stowing) Act of 1937 which provided for stowage in areas where it was needed and authorised the imposition of an excise duty on coal and coke with a view to creating fund for financing the stowing operation. The last Act was amended in 1940 to authorise the application of the Coal Mines Stowing Fund to certain protective measures.

Indian Railway Amendment Act of 1930.

Formerly the Railway workshops were governed by the Factories Act of 1922, but the ratification by the Government of India of the Washington (1919) and the Geneva Conventions necessitated certain changes in the existing law. These were incorporated in the Indian Railway Amendment Act of 1930. This Act provides that a railway servant must not be employed for more than 60

hours a week on the average in any month but if his work is intermittent he may be employed for a maximum of 84 hours a week. The hours of work have been reduced by the Factory Act of 1934 to 9 per day and 59 per week.

Sec. 15. The war and the supply of labour.

The outbreak of the last great war affected seriously the condition of labour and at the same time taxed the brain of the ruling authorities in ensuring a regular supply of workers in the essential services. The cost of living witnessed an unprecedented rise and the wages of labourers proved insufficient to keep their body and soul together. The labourers came forward with their demand for increment of wages and dearness allowance. The Provincial Governments could not remain silent in view of the legitimate demand for increment and adopted measures for granting dearness allowance. The Government, the Railway authorities and the owners of big factories accorded sympathetic treatment to their employees by supplying rations at cheaper prices in addition to dearness allowance. The Central Government also did not think it safe to leave the labour problems to the care of the Provincial Governments. The National Service (Technical personnel) ordinance was passed in 1940 in order to authorise the Central Government to constitute National Service Labour Tribunals in different parts of India with the object of securing necessary workers for notified factories. The Labour Member of the Central Government held conferences with a view to effecting co-ordination in labour legislation.

A tripartite plenary conference has also been set up with the representatives from provinces, states, employers and employees to consider all matters touching the welfare of labourers.

Sec. 16. Nature of Industrial Training.

In ancient India when caste-system was prevalent people belonging to one caste could easily train themselves in their caste profession.

The primitive system of training was defective.

Such a system of industrial training was defective inasmuch as the apprentices had only practical training and nothing which would develop their general ability. The modern method of industrial training aims at not only imparting practical knowledge regarding some particular industry but also developing the general ability of the apprentices. Mere practical training might be useful so far as the employment in that particular industry is concerned, but it will fail to bring the apprentice any permanent benefit.

In India the modern system of industrial training is almost unknown. This has been due to the indifference of the Government of

India and the contemptuous attitude of the rich towards the labourers.

The modern system of training.

The Industrial Commission had cast upon the Government the duty of making suitable arrangement for the universal primary education and after this has been done the next step that the Government should take, will be to improve the technical education by making provision both for industrial schools where the cottage industrialists may get their training and for a system of organised apprenticeship for four or five years so that those wishing to join organised industries may get both practical and theoretical training during the term of such apprenticeship.

Sec. 17. A Case of Industrial Education: Efforts of the Government.

The system of education in a country influences greatly its economic condition. When it is too literary and academic it may go to develop the mental faculties of individuals but it will rarely bring them material happiness. If wants are unknown and things are available without any human endeavour or with the slightest exertion, a system of liberal education may bring immense good to mankind. This ideal state of things does not exist now and it is doubtful whether it ever existed in this world. Men must struggle hard in these days of keen competition, otherwise their wants will go unsatisfied. They must make the best use of their hands and eyes. This is not possible unless they get some practical training and become efficient producers. This makes a strong case for industrial education.

Necessity for industrial education.

In imparting industrial training care should be taken to open different classes and to devise different courses for the training of different classes of labourers. The ordinary workmen cannot be trained along with the artisans and the foremen. Again, the conditions of training must be consistent with the sense of self-respect of the worker and must hold out a brighter prospect for success in order to attract educated Indian youths.

In India the system of education has been highly literary and academic. The colleges and universities provide for a system of training which is purely theoretical. They produce every year a number of graduates whose knowledge helps them very little in the practical field. The learned professions are overcrowded and very few graduates can prosper in them. The result is that these swelling number of graduates whose education has taught nothing but a distaste for manual exertion, has complicated the problem of unemployment in India. In recent times, however there is a change in the angle of vision and it is pleasant

The Indian system.

to note that liberal education has lost much of its charms. The guardians are now very anxious to equip their children with some amount of technical education but the facilities for such education are still too meagre for a vast country like India. The Government of India appreciated the necessity and importance of such education as early as 1888 and advised the Provincial Governments to take necessary action. During the administration of Lord Curzon who called a conference of educational experts at Simla in 1901 the question of technical education came under discussion; the net result of these discussions was an improvement in the teaching of science at the universities and the institutions of certain scholarships to be awarded to Indian students who would proceed to England and America to get technical education. The question of technical educatiou also received careful consideration at the hands of several Commissions *viz.*, the Industrial Commission (1916-18), the Calcutta University (Sadler) Commission (1917-19). Many valuable recommendations were made but no step could be taken by the Government on account of paucity of funds.

Discussions on the improvement of technical education.

Education has become a provincial subject since the Reforms and technical education has therefore, come under the control of the Provincial Department of Industries. These Departments have done very little for the spread of industrial education. The Government of Bombay, however, appointed a committee on technical and industrial education in 1921. The Committee produced two reports—a Majority Report and a Minority Report. The Government of Bombay has not as yet taken any action on those recommendations. Another Committee was appointed by the Government of Bombay in 1938 to examine the question of industrial education. The matter also received careful treatment in the hand of Messers. Abbot & Wood, educational experts from England. The Report of these two experts emphasizes the necessity of imparting instruction through the medium of Indian languages. It also laid stress on the expansion of vocational training in response to needs of industries and commerce as determined by the Government of each province. Greater attention should be paid to the training of supervisory grades of workers. All the above recommendations have not as yet been given effect to.

Such being the attitude of the Government the technical education has made very little progress in the country. The number of technical schools and colleges was 9355 in 1939 and their pupils amounted to 403,520. The number of colleges is only 79. At present there are the following important institutions for technical education :—

(1) The Victoria Technical Institute, Bombay.
(2) Institute of Science, Bangalore.
(3) Government School of Art in Presidency Towns, Lucknow and Lahore.
(4) Colleges of Engineering at Roorki, Shibpore, Poona, Madras, Rangoon, Patna and Benares; Ashanullah School of Engineering at Dacca.
(5) Technical Institute, Cawnpur.
(6) Mining School, Dhanbad.
(7) The Indian Forest Ranger College at Dehra Dun.
(7a) The Indian Forest College at New Forest.
(8) Imperial Agricultural Research Institute at New Delhi.
(9) Government Commercial Institute, Calcutta.
(10) College of Engineering and Technology, Jadavpur, Calcutta.
(11) Government Textile Institute at Serampore.
(12) Bengal Tanning Institute, Entally, Calcutta.
(13) Sydenham College at Bombay.
(14) The Imperial Institute of Sugar Technology at Cawnpur.
(12) The Institute of Metallurgy at Jamshedpur.
(16) Mining and Metallurgical College at Benares.
(17) The Dufferin stationed in Bombay Waters.

Since the commencement of the present war the question of making provisions for training technicians for the war industries came into prominence. A technical Training Enquiry Committee otherwise known as Sargent Committee was appointed and in pursuance of the recommendation of this committee arrangement has been made for the training of 3000 technicians.

Sec. 18. Royal Commission on Labour.

The great industrial unrest which culminated in industrial strife brought the labour problem to the forefront and necessitated a detailed survey of the labour position in India. In 1929 the Government of India appointed a Royal Commission on Indian Labour and asked the latter to enquire into and report on the existing conditions of labour in industrial undertakings and plantations in British India, on the health, efficiency and standard of living of the workers and on the relation between the employers and the employed, and to make recommendations. The recommendations of the Commission have been

given in the Appendix. The Government of India classified these recommendations under six different groups and requested the Provincial Governments to give effect to the recommendations by appropriate legislation when necessary. Most of these recommendations which relate to the condition and hours of work in factories and mines, workmen's compensation and control and supervision of labour which migrates to tea and other plantations in Assam, have been given effect to by necessary amending or consolidating Acts. Legislation was also made on the lines of the British Truck Act to control the deductions which employers may make from wages in respect of fines and to provide for early payment of due wages. In pursuance of this recommendation the Payment of Wages Act was passed in 1936 making the following important provisions *viz.*, (1) No wage period shall exceed one month, (2) The wages must by paid before the expiry of a number of days (7 or 10) after the last day of the wage period, (3) the imposition of the fine is strictly restricted, (4) Deduction from wages for absence should be *pro rata.*

Sec. 19. A brief Review of the Industrial Position: Industrial backwardness of India.

Though India is in a transition in so far as her industrial development is concerned, we cannot ignore the progress which India has achieved uptill recent times. This is evidenced by the rapid growth of factories. In 1894 the number of factories working in India was 815 and in 1940 there were as many as 10900 factories. Since 1932 the Indian industries have been progressing rapidly. The major industries like iron and steel, textile, sugar, have been working on efficient lines as a result of protection and facility for importation of machinery. Cement, paper and jute manufacturers have also recorded substantial increase in the scale of production. The expansion of these infant industries has been encouraged by the Swadeshi Movement and the upward movement of agricultural prices which has improved the economic position of the agriculturists. The number of industrial workers has increased several times and the conditions of employment have been improved by successive factories Acts.

Introduction of rationalisation.

An attempt has been made to improve the efficiency by adopting the system of rationalisation which has been successful in the west. This system of rationalisation has however, created unemployment and we find that in recent years although the factories have increased in number the total number of workers employed in them has fallen substantially.

It should be noted in this connection that foreign countries have not failed to recognise this change in the industrial position of India.

The industrial position of India has been briefly summed up by the India Office of the British Government in the following lines :—"28 million agricultural workers excluding peasant proprietors; 141000 maritime workers a figure second only to that of the United Kingdom, over 20 million workers in industry including cottage industries, mines and transport, railway mileage in excess of that in every country in the world except the United States of America." Within the country the labourers have been given a voice in the administration of the country. The present constitution reserves certain seats both in the Central and in the Provincial Legislatures for the representation of labour. In the Government of India Act, 1935 provision has been made for the representation of labour. The Indian Delimitation Committee have laid down certain requirements which a Trade Union should fulfil before it can be included in the electorate.

Constitutional provision.

The estimate of the industrial position does not necessarily indicate that India has reached the final stage of industrial progress. In fact she still remains backward in the field and has not been in a position to turn to profitable uses the abundant stock of her natural resources. She has still to depend upon foreign countries for the supply of machinery and acccessories. Again, many industries have got to depend upon foreign countries for the supply of acids and alkalies because the chemical industries still remain undeveloped. The progress of the iron and steel industries has scarcely been commensurate with the size of the country and its natural resources with the result that India has to import huge quantities of iron and steel goods every year.

Sec. 20. Social Security Schemes in Post-war reconstruction.

The security scheme has made considerable headway in Great Britain. The White Paper on social security for Britons roughly accepts the scheme revealed in the famous Beveridge Report of 1942 and is a comprehensive document which makes detailed provisions for the grant of maternity benefits, sickness and unemployment allowances and even funeral expenses. In India the Government has regularly refused to ratify the several draft conventions adopted by the International Labour conference in regard to invalidity, old age, widows' and orphans' Insurance; but in view of the important part which industrial workers play in modern times The Government of India has appointed Labour Investigation Committee for collecting data on which Social Security Scheme for Industrial labour may be built. The Government has appointed another officer to devise scheme for effecting sickness insurance for industrial workers.

The said officer has submitted a sickness insurance scheme involving an expenditure of Rs. $2\frac{1}{2}$ crores. The fund is to be raised by means of contribution from the Employers, workers and if possible, from the Government.

Sec. 21. Nature of the Supply of Indigenous Capital.

Inadequate supply of capital.

Capital is needed in agriculture and in manufacture. The capital required for agricultural purposes is mainly supplied by the money-lenders at an exorbitant rate of interest ; the co-operative credit societies have done a great deal in the matter of supply of agricultural capital at a considerably lower rate of interest ; The Government renders some assistance in the matter of procurement of capital by granting takavi loans. The middlemen who advance money to the agriculturists on condition of purchasing crops at a stipulated price play an important part in the supply of capital. The first method is open to objection on the ground that it often leads to accumulation of heavy burden of agricultural debts and the consequent transfer of agricultural holdings in liquidation of the debt. The third method is scarcely availed of by the agriculturists by reason of the rigid formalities involved therein ; and the fourth method is dangerous in view of the fact that the unconscionable bargaining of middle men goes to deprive the agriculturists of the fruits of their labour. The second method furnishes the satisfactory way of supplying capital which the agriculturists may require, but on account of the inadequate development of co-operative movement the supply of capital for agricultural purposes is insufficient and the result is that the cultivators cannot cultivate land intensively with the aid of up-to-date appliances.

Co-operative organisation.

The supply of capital which is required for cottage industries and independent firms comes partly from the village money-lenders and partly from the enterprisers themselves. Co-operative credit societies have done something to increase the supply of capital but there is as yet much to be done in order that the supply may be adequate. The big firms and industries which require the investment of large amount of capital are mainly financed by foreign capitalists.

India being a poor country the supply of capital is very small. Again, whatever small amount of capital the Indians might possess they are too shy to invest it in profitable enterprises. These two causes have been responsible for India's backwardness both in agriculture and manufacture. The shyness of the Indian capitalists

is mainly due to their illiteracy and cannot be removed unless adequate arrangement has been made for the intellectual development of the country. Again, the want of adequate security against which money may be safely advanced has been responsible for the shyness of Indian capitalists. Often Indian money-lenders have to lend money to persons who can furnish no security and thus there is the risk of non-realisation. In recent times the banking organisations, the Savings Bank Department and the Co-operative Credit Societies have removed the shyness to some extent and the Indians are often found to deposit their savings with these institutions which in their turn invest them in profitable enterprises, but deposit banking is still in its infancy in India. The number of joint stock bank is increasing day by day but the part they play in the development of industry is not very important because these joint stock banks cannot afford to lend money for a long period of time. These joint stock banks are mainly financed by foreign capitalists and the supply of money depends greatly upon the foreign market.

India's stock of capital.

Savings Bank Department and Co operative Credit Societies.

Want of banking facility.

Sec. 22. The Supply of Foreign Capital : its Advantages and Disadvantages.

The little stock of capital that India possesses is not sufficient for the proper utilization of her resources ; and the utilization of the resources is urgently necessary for the economic development of the country. Under these circumstances India has no other alternative than to import foreign capital. Such an importation of foreign capital accompanied with foreign enterprise has been made with a view to opening many important industries that we find in the present time. The mining industries, the textile industries, and the plantations like tea, coffee and chincona could not attain such development without the aid of foreign capital and enterprise. The use of foreign capital has facilitated the utilisation of India's resources and thrown open new avenues of employment. It has increased the national dividend and raised the wages of labourers considerably. Again, the importation of foreign capital has some educative influence. The foreigners have imported into the country the technical knowledge relating to the industries which they want to establish and have given an opportunity to the Indians to learn how to organise industries on efficient lines. The foreign enterprisers are investing their capital in risky enterprises and thereby giving the

Two important advantages follow from the importation of foreign capital.

Indians a chance of knowing how to take risks boldly. There are certain risks incidental to every industrial undertaking and unless the Indians are taught how to take such risk boldly the Indian capitalists will remain shy for all time to come. The foreign capitalists are ready to bear the initial cost of development and thereby smooth the paths of unknown enterprises.

Evils of the importation of foreign capital saddled with foreign enterprise.

The importation of foreign capital saddled with foreign enterprise has not been an unmixed blessing. The foreign enterprisers are investing their capital and taking away the profits received from Indian industries. The only benefit that India derives is in the shape of wages to the labourers. The result is that Indian resources are being exploited by the foreign capitalists. Though the utilization of natural resources are intimately connected with the economic prosperity of India such an utilization which means exploitation is not conducive to the interest of India. It is the foreigners that are getting the lion's share of the benefits derived from such utilization of India's resources. The foreigners may monopolise the key industries and thus complicate the problem of national defence. Again, it has been urged that the investment of foreign capital by the foreign enterprisers strengthens their hold on the country and thereby hampers the political progress of India. The Indian opinion also attaches less importance to the educative influence of importation of foreign capital and enterprise because the foreign enterprisers do not often allow the Indians to occupy responsible and important posts in the industry and offer very little opportunity for training the Indians as apprentices.

Sec. 23. Proposed Restrictions on Foreign Capital.

It is to the interest of India that Indian resources should not be allowed to be exploited by foreign capitalists. There has been enough of such exploitation and if it is allowed to go on in this way a time will soon come when all the Indian resources will be exhausted. Under these circumstances it is the duty of the Government to regulate the investment of foreign capital. India has no objection if foreign capital alone is imported but what Indian opinion protests is the importation of foreign enterprise. If the Indians borrow foreign capital and invest it in enterprise the foreign capitalists will get only interest on the capital borrowed and will get no share of the profits. In that case the question of exploitation cannot arise at all. But the Indians are not in a position to take the whole risk upon

Indian opinion.

their shoulders. The best remedy therefore, under the present circumstances will be to increase the participation of the Indians in industries. Several suggestions have been made in this connection. Let us have a brief account of these suggestions :—

(i) That Indians should be given a fair chance of becoming shareholders in industries floated by foreign capitalists.

(ii) That Government should discourage the investment of foreign capital saddled with foreign enterprise by refusing to grant mining licenses and leases to the foreign enterprisers.

(iii) That the Government should cease to register any company that does not possess a certain proportion of Indian capital.

(iv) That the Indian shareholders should enjoy the right of returning their own directors in proportion to their number.

(v) That non-Indian Jointstock Companies should be allowed to be floated only with rupee capital.

The Fiscal Commission as well as the External Capital Committee have criticised some of the above suggestions as unjust and inequitable.

Criticism of the suggestions.

It has been argued that the reservation of a certain number of shares for the Indian shareholders would lead to the fall in the prices of such share and may sometimes be prejudical to the interest of the industries.

Floatation of private companies.

With regard to the fifth suggestion the commissioners argued that such a restriction would generally be evaded by the floatation of private companies but this argument has little force because large amount of capital necessary for industrial enterprises can scarcely be secured by private firms. The proposal regarding the reservation of certain seats in the directorate for the Indians has been attacked on the ground that it savours of racial communalism and violates every principle of sound business management. But in spite of this objection this restriction should be imposed with a view to giving the Indians reasonable opportunity for industrial training. Under these circumstances it is highly desirable that the Government monopolies and concessions should not be granted to companies other than those incorporated with rupee capital in India and having Indian directors and affording facilities for the training of Indian apprentices.

Sec. 24. Foreign Capital under the New Constitution.

The evils of foreign capital have been emphasised by the public opinion in India and there is a loud cry for the removal of these evils: The authorities that rule India remain unmoved and with a view to safeguarding the interests of British officers, merchants and capitalists, in India, have incorporated in the new constitution certain clauses which prevent any Indian Legislature, whether federal or provincial from making any anti-British laws imposing any restriction either on the right of entry into British India or their right to travel, residence, the acquisition, holding or disposal of property, the holding of public office, or the carrying on of any occupation, trade, business or profession. In the same way no valid law can be made which imposes discriminatory taxation against Brtish subjects and British companies. The Companies incorporated in the United Kingdom shall also be eligible for any grant, bounty or subsidy payable out of the revenues of the Federation or of a Province for the encouragement of trade or industry. These protective clauses will have no effect when the United Kingdom imposes similar restrictions on subjects domiciled in India and Companies incorporated in India. This qualification which ensures reciprocal treatment can have no significance in view of the fact that the Indian capitalists who cannot compete with British firms in their own country will have little chance of competing with British capitalists in a foreign country. The clear implication of all the above provisions is that the vested interest of the British capitalists in the sphere of trade and industry should be safeguarded at any cost. The statutory provisions have again, been supplemented by the Instruments of Instructions which give the Governor-General and Governors wide discretion to refuse assent to a bill which may have a discriminatory effect and in case of doubt make it obligatory on them to reserve the Bill for the signification of His Majesty's pleasure.

Safe-guarding of British interests under the New Constitution.

Sec. 25. How Foreign Capital Enters India.

Foreign capital enters into India in three important ways. First, it enters into India in the shape of loans made to the Indians or to the Indian Government at a certain rate of interest. The foreign capitalists in this case get only the stipulated amount of interest and nothing more. They do not take the risk of conducting the industries and as such are not entitled to claim the profits derived from them. The Indians have no objection to this short of investment. Such investment on the other hand, will render a

Foreign capital enters into India in three important ways.

great service to India by removing the stringency of the money market.

Secondly, foreign capital comes to India in the shape of investment made by foreign enterprisers in Indian industries in order to compete with the Indian enterprisers. The investment of such foreign capital brings about a keen competition between the Indian and the foreign capitalists with the result that the consumers can get commodities at a cheap competitive price. But some restrictions should be imposed on such investment because otherwise the foreigners would exploit the resources of India.

Thirdly, there are investments in which foreign capitalists enjoy certain privileges or concessions of land or other natural resources. In granting such concessions the Government should take care not to jeoperdise the interest of India for the benefits of foreigners. Even if the interest of India demands such grant it should be made subject to the condition that the Indians should have some share in such enterprises and some voice in its management.

Sec. 26. Hoarded Wealth of India.

India has been described as a sink of precious metals.

India has been called a "sink of precious metals." Such a view has been entertained by foreigners who have generally overestimated the amount of hoarded wealth of India. It is useless to refer to the estimates made by each of these foreign writers. We will do well to refer to the estimates of some of these writers *e. g.*—Henry Macleod, Earnest Cable and others who are of opinion that the hoarded wealth of India must not be less than £550 millions.

The Indian opinion which is represented by that of Sir Vithaldas Thakersey holds the opposite view. The amount of the hoarded wealth according to his opinion cannot but be small. India cannot contain much of hoarded wealth because hoarding is possible only when the income of the people leaves a surplus after the expenses have been met. Taking into consideration the average income of the people of India we find that it is not possible for the poor Indians to hoard precious metals in large quantities.

We cannot positively deny the fact that some amount of hoarding takes place in the shape of ornaments, but when we go to compare this hoarding with that of other countries and consider at the same time the vast population of India, we can at once say that even this form of hoarding is less in India than in other civilised countries.

Again, even if we assume that tendency to hoarding is much more

predominant here in India than in any other country, we cannot with justice accuse the Indians because such habit has been mainly due to defective systems of banking and currency of the country. As people who part with gold cannot demand repayment in terms of gold and are under obligation to accept payment in terms of silver token coins, gold has got a special fascination in Indian mind. Again, in the absence of banking facilities people have no other alternative than to invest their savings in gold ornaments which can be easily sold or pledged in time of financial difficulties.

The recent development of co-operative organisations and banking institutions have taken away the hoarding propensity and led to the investment of the surplus wealth of the Indians. The middle-class people are generally found to open an account in the post-office savings banks and deposit their earnings in order to earn an interest. The issue of gold certificate as recommended by the Hilton-Young Commission may make the stock of gold available for investment. The hoarding propensity will be greatly checked if steps are taken to promote the banking habit of the people by affording adequate banking facilities.

Sec. 27. Nature of Industrial Organisation.

Different social and economic conditions necessitate different kinds of organisation.

The industrial organisation of a country is greatly influenced by its social and economic conditions. Countries having different social ideas and economic position cannot profitably introduce the same form of organisation. Thus factory system cannot be profitably introduced here in India, because social ideals will not allow the employment of women in factories. Again, an organisation which is suited to primitive condition may not be adopted with profit by the present society. The primitive villages which were self-sufficient units could not carry on production on a large scale but at the present time large-scale production can be carried on with profit because of extension of market occasioned by the facilities of communication. Attempts have sometimes been made to organise some cottage industries on co-operative basis. Co-operation among industrialists can help them in the matter of purchase of raw materials and sale of finished products. Again, up-to-date machinery can be purchased with joint funds and production may be carried on with the help of such machinery. Such co-operative organisation has manifested itself in the cotton and silk industries. Bagerhat Co-operative Weaving Union shows clearly what co-operation can do in the sphere of industry. In India co-operative organisation has not made considerable progress.

The cottage system.

In self-sufficient villages of primitive India the industries were generally carried on in cottages with the assistance of female members. Even at the present time we find some minor cottage industries in India but this cottage system is gradually being replaced by workshop system on account of the opportunities that the latter system gives for carrying on production on a large scale.

Sec. 28. Supply of Indigenous Capital for Industries.

The development of Indian industries depends greatly on the nature of supply of capital available for long-term investment. Let us now turn to discuss the adequacy of this supply. India is undoubtedly a poor country and the *per capita* income is too small to leave any surplus over expenditure ; but it is certain that some people have means to save and do save and that the aggregate savings are gradually increasing. These savings again do not remain barren in private hoards but find place in the vault of savings banks and other joint-stock banks ; but these institutions cannot afford to lock up their funds in long-term investments. There are restrictions which prevent the banks from advancing money against the security of shares of industries. Again, the granting of loans on personal security is not encouraged. Even when loan is granted to industrial concern the rate of interest is abnormally high. Mortgage-banking is conspicuous by its absence and the entire responsibility in regard to supply of capital falls on the general public who lack in knowledge and advice regarding the prospect of an industry. Insurance companies again, do not like to invest their surplus funds in shares and debentures of industrial concerns. There are of course few Indian entrepreneurs and industrial magnates who find no difficulty in securing funds for investment in industries which are under their able management. They can easily sell shares and raise the amount of capital they require but the number of these purely Indian concerns is very small. The majority of the industrial concerns have to depend upon the Managing Agents for their finance. These Managing agents are generally foreign firms and often get control over industries with a view to exploitation. The problem of industrial finance has thus become a serious problem of the day and demands immediate solution. The matter was referred to the Industrial Commission (1916-18) and to the Central Banking Enquiry Committee (1930-31). The former commission recommended the establishment of industrial banks and cast upon the Government the responsibility of providing these institutions with expert advice in the matter of industries through the various Departments of Industries. The Cen-

How to secure funds in India for financing Indian industries.

tral Banking Enquiry Committee also recommended the creation of Provincial Industrial Carporations and All-India Industrial Corporations. Till the establishment of the industrial banks the joint-stock banks were asked to finance middle-class industrialists, subject to a guarantee from the Government which. again should render direct financial aids to concerns of national importance by direct contributions to share-capital, a guarantee of dividends and provision for loans.

The State Aid to Industries Acts have also been passed in several provinces but very small amounts have been advanced under their provisions. State-aided Industrial Credit Corporations, like those established in Bengal and the United Provinces may be of considerable assistance to the industries.

Greater attention should be paid to the studying of position of industries with the help of expert committee and opinion of the said committee should be published with a view to encouraging investment in sound enterprises.

Sec. 29. The Cottage Industries : its Advantages.

The system of cottage industry can claim the following advantages :—

(1) It offers opportunity for the employment of female members. The social condition and the moral sentiment of the Indians will not allow the female members to work in factories, but if industries are carried on in cottages the female members will work with the male members in order to add to the total income of the family. The female members will thus earn their own bread and cease to be absolutely dependent on their husbands for maintenance.

(2) The cottage industries will serve as by-occupation to the agriculturists. Every Indian cultivator has generally speaking, plots of land to cultivate ; but the cultivation of land does not absorb his whole time. There are parts of the year when he has no work in the field to do and during such time he can profitably engage himself in industries at home.

(3) The next important advantage is the moral atmosphere that cottage industries create. The organisation of production in factories necessitates a concentration of workmen in factories and involves a separation from the female members of the family. The workmen have to live amidst temptations of the city where the factory is situated with the result that their moral character often becomes degenerated.

(4) The mechanical inventions which involve the use of electricity have made it possible for the small producers to derive some of the eco-

nomics of large-scale production. The advantages of marketing also can be secured by means of co-operative organisation among the small producers. Several cottage industrialists should form a co-operative society and purchase the raw materials that they require in large quantities and therefore, at a comparatively cheap price. By means of co-operative organisation they will be in a position to purchase a costly machine on joint account and use it by turns. In this way the cottage industrialist can withstand the competition of the large-scale manufacturers. The cottage industries have advantages in producing those commodities the demand for which is either too small or the nature of which is too artistic. The products of these industries are generally more durable and can satisfy the taste of local consumers.

Sec 30. Cottage Industries: the Cause of their Survival.

In these days of economic transition through which India is now passing, the importance of cottage industries is gradually decreasing.

The present condition of the industries.

Some industries have already succumbed because of the keen competition of machine-made goods. There are others which are dragging their existence with great difficulty and will surely die in the near future. Their weakness is due to inherent defects and an attempt to resuscitate them will retard the economic progress of the country. There are several other industries which can still hold their own provided the artisans concerned manage to adapt themselves to the changed conditions and make the best use of the up-to-date appliances which the new era has brought with it. These industries do not suffer from the competition of machine-made goods because the demand for the commodities they turn out is too small or their character is too artistic for the employment of an automatic machine. Again, these cottage workers have an intimate knowledge about the nature of commodities required by the people and can easily adjust their nature and scale of production in response to local needs. In the isolated villages the self-sufficiency of which has not yet been destroyed by the Railways and other systems of communication the position of the artisans remains undisturbed. The most prominent of cottage industries is the hand-loom weaving industry. Though this industry cannot turn out goods as cheaply as can be done by the mills, it survives because it can respond to the needs of the community by producing articles of specialised kind. There are some other cottage industries *e. g.*, the silk industry, the woollen industry, oil-milling, tanning, embroidery work, pottery, and the match-industry.

All these industries have responded to the changing environments and have substantially improved their methods of production by using

better materials and tools. In Bengal the weavers are found to use the flyshuttle slay and the tailors perform their sewing operations with the help of sewing machines imported from foreign country.

The Swadeshi Movement of the present day has brought about a change in the attitude of the people. The Indians prefer indigenous articles to foreign goods even though the price of the latter is lower than that of the former. Another important cause of the survival of the cottage industries is that the industrialists carry on the production with the help of female members of the family who could otherwise have remained idle. Again, when hired labourers are employed their services are available at a very cheap rate when there is no work in the field to do. The atmosphere is also peaceful and is not affected by any labour trouble which often has been associated with the factory system of production. In spite of the advantages the cottage industries cannot prosper because they suffer from want of capital and efficient organisation. The producers are also conservative.

Lower cost of production.

Sec. 31. How the Cottage Industries can be Encouraged ?

The cottage industries can be encouraged if steps are taken to remove the difficulties which stood in their way and hastened their decay.

One of the causes of the downfall of the primitive cottage industries was the competition of cheap foreign goods with the indigenous goods produced by Indian mills. The mechanical inventions have however made it possible for the small-scale producers to produce goods almost as economically as can be done by the large-scale manufacture. Therefore, the first step that should be taken in reviving the cottage industries will be to promote the use of these up-to-date machinery. The Government should always see that the prices of these appliances do not increase because of the imposition of duties upon them and that the artisans are in a position to use the appliances profitably.

The up-to date appliances should be used.

Another cause of the downfall was the want of credit facilities. The cottage industrialists had to borrow money from the village money-lenders at an exorbitant rate of interest and the rate of interest had the effect of increasing cost of production. The industrialists can by means of co-operative organisation solve this problem. The Provincial Governments may also provide the poor artisans with the necessary capital by passing the Industrial Loan Acts and the State Aid to Industries Act and by encouraging the establishment of credit corporation by

guaranteeing minimum dividend on the models approved by the Legislatures of Bengal and the United Provinces.

Other causes of the decay of the cottage industries were the chronic ignorance of the industrialists and the defective training that they obtained in former times. The imperfect division of labour, reluctance to utilize improved tools, methods and processes, the inherent conservatism, absence of organisation, and the lack of ambition on the part of the artisans are other difficulties which are still impeding the success of cottage industries in India. Efforts should however, be made to improve the industrial training of the people by establishing such schools as have been recommended by the Industrial Commission. The Government should make arrangements for the training of the artisans by head-masters with practical knowledge of the industries taught. The Department of Industries will do well to start weaving schools on the lines recommended by the Industrial Commission. Provincial Governments should take steps for familiarizing the cottage workers with the up-to-date tools and implements with the aid of demonstrators employed for the purpose. Bihar has taken the lead and it is desirable that other provinces should not remain indifferent.

Chronic ignorance should be removed.

The industries sometimes suffer for want of adequate supply of raw materials. Attempts should be made to improve the qualities of raw materials by scientific methods of production. The absence of the effective marketing organisation and the defective system of advertisement are other difficulties which stand in the way and impede the progress of the cottage industries. The artisans generally sell their produce to the local consumers and there is no business organisation which undertakes the responsibility of selling them in the distant markets. The result is that the products of cottage industries cannot command a wide market. A removal of these defects necessitates the establishment of many Emporia similar to the Arts and Crafts Emporium at Lucknow and of many licensed ware-houses and co-operative wholesale depots and provincial marketing Boards as recommended by the Provincial Banking Enquiry Committee. The holding of periodic exhibitions and creation of permanent museums on the lines recommended by the Bombay Economic and Industrial Survey Committee will serve useful purposes. The Government may also render great assistance by purchasing stores from the artisans whenever possible.

Extension of market.

Sec. 32. How far the Western Methods of Organisation has been Adopted in India.

We have already seen that the system of cottage Industry is being substituted by workshop or factory system of the western type. Now the workmen are to render their respective services under the supervision of foremen or superintendents. There is division of labour and no one has to perform more than one single operation. The production is now carried on a large scale with up-to-date implements. There has been localisation of industries and the management of industries has taken various forms.

The workshop system.

All the above changes have increased the efficiency of production and enabled India to compete sucessfully with a foreign country in the production of some articles. But we should remember that this industrial revolution did not take place in India so earlier as in the western countries, and the result is that most of the Indian Industries are still in their infancy and as such cannot successfully compete with the well-established industries of the western countries.

The industrial revolution.

The industrial revolution first manifested itself in the two principal industries of India *viz.* cotton and jute. About the middle of the last century these two industries were established in Bombay and Bengal respectively. The revolution then spread to other spheres of human activity. The Great war increased the demand for Indian manufactures and thereby gave a temporary stimulus to the Indian industries. The present position of these industries has been greatly improved by the Swadeshi movement and the policy of 'discriminating protection' adopted by the Government of India.

Cotton and jute industries.

Though in India production is now carried on on a large scale owing to the extension of market by the Railways, yet the economies of such production are not as great as those derived by the western countries. The freight charges in India are higher than those in western countries. As a consequence the market for commodities is not so extensive in the former as it is in the latter.

The high freight charges.

The localisation of industries which is another characteristic of western organisation was not unknown to India in ancient times. In ancient as well as in modern India we find instances of such localisation—*e.g.* The Shawl industry of Kashmere, the Muslin industry of Dacca ; but the causes that led to the localisation of ancient industries were not the same as those which lead to the localisation of industries at the paesent time. In ancient times industries were localised mainly

The localisation of industry.

at places where the courts existed or which would be visited by the pilgrims for their holiness. But in recent times localisation has much more reference to the nearness of the raw materials than to any other causes. Of the localised industries the following are important—

(i) The Cotton industry of Bombay,

(ii) the Jute industry of Hooghly,

(iii) the Leather industry of Cownpore.

Again, there has been a change in the form of business organisation. In modern India we find instances of various kinds of business management—(1) The Entrepreneur system, (2) the Partnership system, (3) The Joint-Stock Company, (4) The Co-operative system. In ancient India industries were generally carried on in cottages and the scale of production was very small. The question of management was not therefore very important in those days. But with the introduction of factory system of production the management of business has begun to play an important part.

The organisation of an industry is greatly dependent upon the efficiency of the person in charge of such organisation. A man having no organising faculty should not be entrusted with the organisation of an industry. The industrial backwardness of India is in a great measure due to want of efficient organisers. There are few men in India who have sufficient faculties to organise industries efficiently. This dearth of efficient organisers is again due to shyness of the Indian capitalists and lack of enterprise among them. The Indians are very unwilling to exercise their faculties in risky enterprises but will remain satisfied if they can somehow or other secure a job at any office. This slave mentality has been responsible for India's industrial failure.

Sec. 33. Managing Agency system : its Merits and Defects.

In the organisation of industry the managing agency system has come to play an important part in modern times. The cotton industry, the jute industry, the sugar industry and several other important industries have been placed under the control and management of managing agents. These managing agents form a private partnership of 3 or 4 members. They raise certain portion of the capital and undertake the task of management. These agents have sufficient financial resources and can easily overcome all financial difficulties which stand in the way. They obtain control over several allied trades and industries and enjoy the economies of vertical combination The system is suited to Indian conditions inasmuch as there are few

individual entrepreneurs to undertake the risks of large-scale industries.

The system has been severely criticised on the following grounds :—

Defects of the system.

(i) The system cannot ensure efficient management because on the death of original agents the ownership of the agency passes on to their heirs who may be lacking in business experience. Unlike the Euoopean Managing Agency system the Indian system does not allow an outsider having expert knowledge to enter into the Agency.

(ii) The managing agents have often been found to promote their selfish interest at the cost of the Company.

(iii) The agents do not always proceed in a businesslike way and sometimes make up the loss in one concern by profit from another concern.

(iv) They do not attempt to put the industry on a stable footing and declare high dividends without making provision for reserve funds.

(v) They do not attempt to remove the grievances of the workers and the accumulated grievances lead to serious industrial troubles. Scientific researches have often been neglected and no attempt is made to remove the wastes and inefficiencies of modern industry.

(vi) The remuneration of the managing agents is too high a price paid for their inefficiency and goes to reduce the profits of the company.

(vii) The rigid control which the agents happen to exercise leaves nothing to be done by the Board of Directors and reduce the scope for any healthy control. They often fill up the Board of Directors with their own nominees and thus assume practical control over the affairs of the industry. With a view to removing the evils of Managing Agency system the Indian Companies (amendment) Act was passed in 1936. This Act gives a statutory definition of managing agents and imposes certain restrictions on the terms of office, the sphere of activity and the remuneration of the Managing agents and on their right to nominate members to the Board of Directors.

Sec. 34. Industrial Growth and the Attitude of Government.

The attitude of the state towards national industries has an

important bearing upon its development. This is true in Japan and other civilized countries which now occupy enviable position in the sphere of Industry. In India the policy of the State towards industrial development has been apathetic from the very beginning and it is unfortunate that the true interest of India has often been sacrificed to the cause of Lancashire. The imposition of cotton excise duties to safeguard British interest was a clear indication of the anti-national policy followed by the authorities that rule India. The laissez-faire policy which had been the creed of British rule in India allowed the free entry of cheap foreign goods into India and the discriminating rates charged by the state-managed Railways helped greatly in the matter of carrying them from the port to the doors of the consumers. In the beginning of the twentieth century there was a change in the angle of vision and in 1905 the Imperial Department of commerce and Industries was opened at the instance of Lord Curzon. Several Provincial Governments also came to take active steps in developing industries, but this enthusiasm received a rude shock when in his notorious Despatch of 1910, Lord Morley, the then Secretary of State advised his snbordinates in India not to take any active part in the development of industries. This indifferent policy continued till the period of the Great War during which the immense contribution of India to the military needs of Great Britain and the efficient working of the Munition Board convinced the authorities that the development of Indian industries would necessarily be of great assistance to Great Britain in trouble. To examine the possibilities of industrial development the Industrial Commission was appointed in 1916. The said Commission submitted its report emphasizing the creation of Provincial Board of Industries and of industrial and chemical services. Provincial Departments of Industries were started and the Provincial Governments were given freedom of action by the Act of 1919.

True interest of India has been sacrificed.

A change in the fiscal policy was urgently called for by the patriots of India. The Montague Chelmsford Report responded to this call by affirming that the Indians should be given fiscal autonomy. The Joint-Select committee on the Government of India Bill of 1919 also reported in favour of the fiscal autonomy and the British Parliament finally accepted the recommendation in order to satisfy the long-standing demand. The Government of India which was thus authorised to regulate its tariff policy appointed the Fiscal Commission in 1921. In pursuance of the recommendation of the said commission the policy of discriminating protection was

Change in fiscal policy.

introduced and administered with the assistance of an expert body known as the Tariff Board. As a result of this policy many important industries namely, steel and iron, textiles, paper, sugar, matches have received protection and attained considerable progress. In 1939 there were in India 9422 large industrial establishments daily employing 1,940, 477 workers.

Sec. 35. Industrialisation of India and the Government's duty.

The industrialisation of India is urgently demanded.

In these days of International trade a country does not depend absolutely on the foodstuffs produced within it. Foodstuffs can easily be imported from other countries provided the importing country can give other articles in exchange. This is the reason why the doctrine of population as enunciated by Malthus has become antiquated in modern times. The question of population is in modern times not one of mere size but it is one of efficient production. If the country can by developing the industrial efficiency of the population flourish in the manufacturing industry it will find no difficulty in procuring foodstuffs from other countries in exchange for the manufactured articles that it produces. The problem of over-population in India will therefore be solved if the people of India can improve their efficiency in the production of manufactured articles. Again, a considerable development of Indian Industries will go to create new sources of wealth, encourage the accumulation of capital, enlarge the public revenues, provide for more profitable employment of labour, reduce the excessive dependence of the country on the unstable profits of agriculture and finally stimulate the national life and develop the national character and purchase national freedom. Modern tendencies prove in clear terms that India can be self-supporting in the supply of cotton, textiles, sugar, matches, paper, glass, oil, soap, cement and engineering materials. But it is impossible for the Indians to proceed in this line unless they are helped the Government of the country. The Industrial Commission appreciated the necessity of this help from the Government and recommended the establishment of an administrative machinery for this purpose.

Need for industrialisation.

The administrtive machinery to be created for the development of Indian industries should, as the Commission recommended, consist of an Imperial Department of Industry to be in charge of a member of the Viceroy's Council and a provincial Department in each province the control of which should be vested in a Director of Industry. These departments have been created in accord-

The administrative machinery.

ance with the recommendation of the above Commission. The functions of these departments mainly consist in spreading the industrial knowledge by the publication of industrial pamphlets and in promoting research work in various industries and in rendering financial assistance to industries. But this effort will bear no fruit unless adequate arrangement has been made for the primary education of the mass of population. The spread of industrial knowledge will be of no effect if the people of India remain as illiterate as they are at the present time. The number of primary schools should be increased and adequate funds should be set apart for this purpose every year. The number of technical schools should also be increased. There should be facilities for practical training of the Indians in industrial firms. The Government should make it a point, as the Commission recommended, to place orders with those foreign firms which give facilities for the training of Indian apprentices.

The function of the Government.

Some provincial departments *e.g.* Bengal Industries department have started research laboratories for carrying investigations on lines recommended by the Industrial Commission. The Bengal Tanning Institute has been doing useful research work for better utilization of local leather and tanning.

Another important step that should be taken by the Government is to regulate its Tariff policy in such a way as will prevent the importation of those foreign articles that compete freely with the infant industries of India. But in doing so the Government should take care so as to protect only those industries which have enough prospect for success within reasonable time.

The Government should always bear in mind the importance of industrial exhibition and should take an active interest in organising such exhibitions. Exhibitions of this character help the growth of industries by spreading a knowledge of them, suggesting novel ideas to the intelligent observers and widening the market for the articles exhibited. They serve as an advertisement to the consumers and exercise educative influence upon the minds of the producers.

The industrial progress of the country is intimately connected with efficient banking organizations. Steps should be taken to introduce a system of Industrial Banking. State Aids to Industries Acts passed by the Provincial Legislatures may be of greater service to small industries but they cannot procure the much-needed funds required for financing the big industrial concerns. Greater assistance to small-scale industries would become possible if Industrial Credit Corporations

with government guarantee of dividend at certain fixed rate are started on the models approved by the Legislatures of Bombay and the United Provinces. To facilitate massive production the Government should not only familiarize the people with up-to-date machinery but should also regulate the railway and shipping rates so that goods may be carried from one place to another at less cost and thus command a wide market.

The Government may encourage the Industries in another way. It requires a large quantity of stores every year and may conveniently adopt a policy of purchasing stores in India when the indigenous goods are not inferior to British goods in quality. An adoption of this policy will surely go to stimulate many Indian industries. For a period of time the Government was indifferent but recently it has set up a Store Purchase Committee in accordance with the recommendation of the Industrial Commission. The said Committee suggested the establishment of a central expert agency and the Indian Stores department was instituted accordingly. The Department acts as a purchase and inspection agency and advises the Government as to the purchase of Indian goods. The Department has introduced the rupee tender system so that the Indian firms may compete freely with foreign firms in supplying commodities. It has an Industrial Intelligence and Research Bureau attached to it and has been rendering assistance to the manufacturers in India by giving valuable technical advice for improving the quality of their products, by promoting industrial exhibitions and research work and disseminating industrial intelligence. The Bureau is assisted in this matter by the Industrial Research Council. The Department has framed rules for regulating the purchase of stores in India and is found to show preference to articles of Indian origin whenever possible without sacrifice of economy and efficiency. The inauguration of this new policy has resulted in substantial increase in the value of stores purchased in India and considerable reduction in the value of stores imported from abroad.

Indian Stores Department.

Sec. 36. The Last Great War : How far it Fostered Industrial development ?

The last great war depended greatly upon India for the supply of war materials which the united nations urgently required for the successful prosecution of war. This great demand for Indian commodities has given a fillip to Indian industries and absence of foreign competition has created a more favourable atmosphere for the growth of many infant industries. India is now in a position to supply as

many as 20,000 articles required by the modern Army. India is practically self-sufficient in the matter of supply of requirements of her Army and has been exporting huge quantities of arms and ammunitions for aiding the military operations of the allies. In 1941-42 the value of exports of Indian merchandise increased to Rs. 237 crores as compared with Rs. 187 crores in 1940-41. The establishment of an Air Craft Factory at Bangalore and the ship-building yard at Vizagapatam proves clearly an extensive programme of industrial activity during the war time. The recent imposition of restriction on the import of as many as 68 items, the freezing of Japanese assets and the consequent withdrawal of Japan from the Indian market have given additional impetus to the revival of many small-scale industries which formerly could not withstand Japanese competition. Attempts have been made by the provincial governments to overcome the financial difficulties that stand in the way. The war has also stimulated the growth of many key industries of India. The engineering industry is now engaged seriously in the production of machine tools and in the works of repairing. The aluminium and heavy chemical industries have attained considerable development. The Cotton mills are being worked to their utmost capacity with a view to executing the military orders. The phenomenal increase in business activities is also proved by huge profit earned by companies. In 1941-42 the profits earned amounted to Rs. 22·28 crores as compared with Rs. 16·1 crores in 1940-41. It is to be remembered in this connection that immense scope for industrial progress which the last war offered was associated with several handicaps which no careful observer can ignore. In the first place India has still to depend upon machinery, accessories and essential stores imported from foreign countries but the enemy activity has obstructed the import of these goods. Secondly, India has not yet been in a position to develop her heavy chemical industries which are essential to industrial progress. Thirdly, inadequate supply of experts and technicians is a serious difficulty which demands immediate removal. It is gratifying to learn that the Government of India has been trying to overcome this difficulty by adopting the scheme of training technicians as recommended by the Sargent Committee as well as by sending Indian apprentices for receiving training in factories in the United Kingdom under the scheme of Mr. Bevin. Greater results will follow if the Government of India augments its training programme on the lines recommended by the American Technical Mission and pays closer attention to facilities for transportations, communications and development of resources. Fourthly, the

The war stimulated the industry in India.

dislocation created by the labour unrest on account of recent bombing in the industrial centres is another factor of far-reaching importance. Fifthly, the cost of production has increased considerably on account of the grant of dearness allowances to workers, provision of food materials at rates lower than the market rate, the levy of Excess Profits Tax and higher surcharges on income tax. Sixthly, the loss of export market for Indian manufactures on account of Japanese occupation in the far east and the country-wide economic distress account for considerable reduction in the non-military demands for products of Indian industries.

Sec. 37. The Industrial Backwardness of India and its Causes.

So far as the industrial development is concerned India is still in her infancy. There are several causes which are responsible for her industrial backwardness. Let us have a brief account of each of these causes.

(1) The nature and amount of production are intimately connected with the nature of the supply of the four agents of production—(i) Land, (ii) Labour, (iii) Capital and (iv) Organization. When we study the supply of each of these agents in India and compare it with the similar supply in other countries, we will at once come to know the defects which are inherent in the agents of production as found in India. The land lacks in many mineral properties which go to increase its fertility. The labourers are unskilled and illiterate. The supply of capital is very small and even this small amount of indigenous capital is not invested in profitable enterprises on account of the shyness of the Indians. Lastly, there are few leaders of industries to organize industries efficiently.

The four agents of production are defective.

(1-a) Besides this defective nature of the supply of each of the agents of production, there are several other evils that stand in the way of India's industrial success. One of these evils is the heavy freight charges. The construction of railways has no doubt done a great service to the Indians but a comparative study of freight charges will at once show that the Indian railways have not helped the development of industries in the same way and to the same extent as has been done by the railways of foreign countries. The high freight charged on industrial goods has the effect of narrowing the market and reducing the scale of production. These heavy freight charges have been responsible for the recent depression in the coal industry of India.

(2) The next important cause is the heavy expenditure that is to be incurred in setting machinery. We have to import these machines from foreign countries and set them up in our own country. The expen-

ses of setting up the machines are higher in India than in foreign countries. Again, if by accident one of the parts of a machine becomes out of order, and has to be replaced by another we have to import that part again from a foreign county and the machine remains idle until such part has been replaced. The advantages of localisation cannot be profitably reaped by India because of the want of adjustment between the various factors that contribute to such localisation.

(3) The foreigners know thoroughly the nature of the articles that are demanded by the Indians and they supply such commodities as are suited to the tastes of the Indians. It is very difficult to drive these foreign traders away from India.

(4) Another important cause of India's Industrial failure is the competition of cheap foreign goods. The well-established industries of foreign countries can supply commodities at a rate cheaper than that which will be charged by the infant industries of India for the supply of similar commodities.

(5) Again, the foreigners will sometimes sell commodities at a price which is lower than the cost of production involved in producing such commodities with a view to destroying the infant industries. This is what is technically known as the *dumping* operation.

(6) The indifference of the Government is another important cause. It is very difficult for a country to flourish in the sphere of industry unless the Government takes a keen interest in the development of its industries and acts accordingly. We know that Germany and U. S. A. could not have attained industrial success had not the Government of each of these countries protected the infant industries by the imposition of protective duties. The necessity of such protection was keenly felt in India long long ago but the Government of India continued to follow the policy of free trade till recommendations were made by the Fiscal Commission in the opposite direction.

(7) The undue preference shown by the Government for British goods in the matter of purchase of stores has the effect of reducing the market for Indian products and damping Indian enterprise.

(8) Another glaring defect in the existing system of organization is the lack of initiative in the matter of industrial development. Almost all the big undertakings of the country are exotic in their origin. The jute industry is now practically the monopoly of Scotchmen of Dundee. The iron industry is largely in European hands. The plantation industries are almost exclusively financed by foreign capital and controlled by foreign enterprise. These big enterprises scarcely offer any opportunities for training the Indians in business and have been killing Indian enterprise. Again, the big businesses in India are

mainly concentrated in the hands of Managing Agency firms which are extremely conservative in their methods of business and show undue reluctance in embarking on new ventures.

(9) Another important cause is the defective system of advertisement. In these days of keen competition it is very difficult for a manufacturer to flourish in his business unless he has by means of advertisement managed to draw the attention of the consumers to the quality of the goods that he turns out.

(10) Slow growth of chemical and metallurgical industries has made India completely dependent upon foreign countries for the supply of machinery and chemical products which are required in the manufacture of paper, textiles, dyes, matches and explosives.

Sec. 35. Benefits of Industrialisation.

India has immense prospect for success in the sphere of industry and will in the long run command a premier position in the said sphere. Let us now turn to discuss the benefits which India will derive from rapid and all-round industrial development.

In the first place industrialisation will surely go to reduce the ever-increasing dependence on agriculture which mainly accounts for poverty of the people. If Indian industries achieve substantial progress the national dividend which is the source of payment to the agents of production will increase and each agent of production will be in a position to command higher remuneration. Thus there will be a simultaneous rise in wages, profit, rent and interest.

Secondly, there will be diversification of industries which will throw open new avenues of employment. The problem of middle-class unemployment which has already become a serious problem of the day will be solved in no time.

Thirdly, rapid industrialisation will surely require a large supply of intelligent and skilled worker. The labourers will come forward to equip themselves with necessary training and the present-day literary training which brings nothing but disappointment will be replaced by a system of practical training which enables a man to earn his own bread. Industrialisation will thus go to improve the cultural and economic condition of the population.

Fourthly, there will be greater opportunities for investment and people will surely give up their traditional habit of hoarding wealth and employ their saving in profitable enterprises. In this way people will gradually learn how to take risks boldly and ultimately drive away the foreign capitalists who are responsible for economic exploitation of India.

Fifthly, diversification of industry will go to make India economically self-sufficient. This economic self-sufficiency will mean an advantage for Great Britain which will be in a position to tap India's resources for military purposes when occasion will arise.

Sixthly, the economic prosperity which industrialisation of India will surely lead to will enhance the taxable capacity of people and make the system of taxation more elastic. The receipt from income-tax which is the most productive of all sources of revenue will increase sufficiently and leave a positive balance after making up any loss occasioned by the reduction of imports of foreign manufactured goods.

Sec. 39. Comparative Advantages of Manufacture over Agriculture.

The pressure of population

The diversification of industry.

India is mainly an agricultural country. Almost 70% of the population of this continent depend more or less upon the lands available in it. The result is that every net annual increase in the population has the effect of increasing the pressure of population upon land. This preponderance of agriculture is the main cause of India's poverty. The several commissions that were appointed by the Government of India to enquire into the causes of Indian famines unanimously declared that the absolute dependence upon agriculture was the cause of India's poverty and recommended diversification of industries as the most important remedy. On the other hand there are European economists who are against the industrialisation of India and advise her to stick to agriculture as her sole industry and try to develop it alone. Which of the above two extreme views should be adopted by India ? This question can be answered only when we have considered the respective merits and demerits of agriculture and manufacture. Let us therefore, have a brief review of the comparative advantages of manufacture over agriculture.

(1) Agriculture is an industry that is subject to the operation of the Law of Diminishing Returns and in consequence, a country which has to meet all her internal and external demands from the products of the soil must be confronted with the operation of such a law. The law has already begun to operate in some parts of India and in other parts it is sure to manifest itself within a short time, if the population goes on increasing at the present rate. The operation of the Law of Diminishing Returns will lead to a rise in prices and the misery of the mass of the population will know no bounds. In manufacture the

Law of Increasing Returns operates and an increase in the scale of production leads to a fall in prices.

(2) The prosperity of an agricultural country is uncertain. This is due to the fact that nature plays the predominant part in this industry. There are certain natural properties of the soil which cannot be restored when exhausted even by artifical application of manures. Again, an agricultural country is dependent upon nature for the adequate supply of water without which this industry cannot flourish. The problem of water-supply cannot always be solved by the construction of irrigation canals. The failure of crops in India is mainly due to the want of rain-fall, to the excessive rain-fall or to the untimely rainfall. In manufacture there is no such dependence upon nature; human efforts play the predominant part there.

(3) The labourers of an agricultural country are generally illiterate and immobile. The industry in which they are engaged requires little or no technical education. Their illiteracy and unskilfulness promote idleness and cause much waste of energy. The labourers remain idle for the most part of the year when there is no work in the field to do. The case is otherwise in a manufacturing country. The labourers who have improved their general abilities by the modern system of industrial training and who have obtained some specialised knowledge relating to one industry can easily transfer themselves to another industry when the former industry comes under a depression.

(4) The standard of living is very low in an agricultural country. This is due to the fact that in such a country the average income of the people is very small. This low standard of living has a cumulative effect upon the efficiency of the population. A country which has flourished in manufacture can afford to pay higher wages to the labourers and thus maintain a high standard of living.

(5) The economic advantages of a large-scale production and localisation of industry cannot be reaped by an agricultural country. The manufacturing country on the other hand can enjoy these economic benefits. Again, a manufacturing country can offer opportunities of employment to the labourers and thereby solve the problem of unemployment to some extent.

(6) Another important disadvantage which an agricultural country suffers from is the double freight charges that it has to pay while exporting goods to foreign countries. It has to send a large number of ships because the raw materials are more bulky than the finished products. All these ships are not required by the foreigners to send their manufactured commodities to the agricultural country and in

consequence, the ship-owners will not be willing to carry the goods unless the agricultural country pays the double freight charged by them.

Considering the above advantages derived by a manufacturing country over an agricultural one we cannot agree with the European writers in their opinion that India should remain an agricultural country for all time to come. On the other hand we are in favour of the speedy industrialisation of India.

India has immense prospect for industrial success. India abounds in raw materials such as cotton, jute, oilseeds, hides and skins and sugarcane. The mineral resources are sufficient to maintain most of the so-called 'key' industries expect those that require venadium, nickel and possibly molybdenum. The difficulties of finding Indian capital seem to be vanishing under the influence of new ideas bred of education, new banking facilities and new enthusiasm for the employment of capital in industries. At present India produces raw materials and imports finished products. She has to exchange raw materials for the imported articles. If India takes upon herself the task of manufacturing commodities which she has to import from foreign countries she will not have to depend upon foreign countries for the supply of raw materials. Thus she will have a ready supply of raw materials at a cheaper price. Again, the manufacture of commodities will increase the internal demand for raw materials and the agriculturists will not have to sell their articles in a foreign market. The supply of raw materials will easily respond to the demand for them and there will be little or no chance for overproduction and consequent fall in prices. India should, therefore, aim at fostering the development of her manufacturing industries.

India has sufficient supply of raw materials.

Sec. 40. Effect of Industrialisation on Agriculture.

The question that comes for discussion in the present section is whether rapid industrialisation of India will be beneficial or detrimental to interest of agriculture in India. It is sometimes argued that industrialisation of India will lead to diminution in the supply of foodstuff and the consequent rise in prices. True it is that there will be mobility of workers from agricultural occupation to the newly floated industries; but in view of the want of employment among labourers this mobility will not in any way create scarcity of agricultural workers so as to reduce the stock of foodstuff. On the other hand rapid industrialisation will lead to fabulously large accumulation of capital and the surplus capital

Industrialisation will not lead to diminution of foodstuff.

will be available for improvement of agricultural industry by the introduction of scientific method which reduces the scope for the employment of manual labourers.

Again, industrialisation will have certain beneficial effects upon agriculture. It will increase the demand for raw materials and thus stimulate production. It will remove the pressure of population on land and open out new avenues for employment of labourers. The labourers will be in a position to demand higher wages for their services and the improved method of production will go to add to their efficiency.

Sec 41. The Congress scheme of National planning.

The Indian National Congress had shown in the past an undue attachment for the development of cottage industries and deprecated in strong terms the growth of factories and use of machines. This attitude of the Congress is in a way responsible for the industrial backwardness of India. Netaji Subhas Chandra Bose, ex-president of the Congress was the first to deviate from this old tradition of the Congress and emphasize the urgency of rapid industrialisation which alone would bring economic salvation for India. In a Conference of Industries ministers convened by Netaji Bose a comprehensive programme of national planning was drawn up with special reference to the key industries which must be started at once. The key industries included the mechanised industries like manufacture of machinery, tools and plants, the manufacture of heavy chemicals, manufacture of electrical plants and accessories. In 1938 a National Planning Committee was set up under the Chairmanship of Pandit Jawaharlal Neheru. The Committee was assisted in its work by several Sub-Committees and finally expressed its desire to prescribe the standard of achievement and the period within which such achievement is to be made. This hopeful assurance of the committee could not materialize in view of the resignation of Congress ministries in September, 1939.

Sec. 42. A Brief Account of some Important Industries.

In this section we shall consider the conditions of several important industries of India and suggest certain schemes by which improvement can be effected in them.

(i) *Handloom Cotton Weaving* :—Though this industry has now fallen into decadence owing to the competition of cheap foreign goods it still provides a large number of people with employment. The handlooms produce cloths of various descriptions. Their production is about 27·8 per cent. of the total cloth produced in India and is

roughly valued at Rs. 50 crores annually. Sometimes this industry produces articles which are remarkable for their fineness The muslins of Dacca speak of the development which handloon industry can attain. Other centres are Santipur in Nadia and Dhanekhali in Hooghly. This industry now produces those articles for which the demand is too small for the mill industry to compete. The small-scale of production which characterises the handloom industry is a disadvantage which can only be removed by means of co-operative organisation. If the handloom weavers develop a spirit of co-operation among them they will be in a position to derive all the advantages of large-scale production and to compete freely with mills in producing articles of every description. It should be noted in this connection that this industry depends on foreign countries for the supply of cotton yarns that it requires and in consequence, is sure to be affected by the imposition of an import duty upon cotton yarns even for revenue purposes. It is, therefore, desirable that the spinning of cotton should be encouraged along with the development of the weaving industry. The non-co-operation movement has undoubtedly given an impetus to the spinning industry of India. In 1938-39 the total quantity of yarns spun in India was 130·3 crores of pounds.

Although the handloom cannot turn out cloths as economically as the mills, yet they have survived on account of the following reasons :—(1) The handlooms can be worked with a small capital. The weavers carry on production with the help of children and female members of the family ; (2) Weavers produce articles of special character as well as articles that require artistic skill ; (3) The articles turned out by the weavers are stronger and more durable than those produced by mills ; (4) The weavers turn out commodities for which there is a local demand.

The handloom weaving industry gives employment to thousands of labourers and the progress of this industry will solve the problem of unemployment to some extent. Attempts should be made to improve this industry in the following ways :—(1) The use of up-to-date appliances, (2) Co-operative credit organization and provision for loans advanced under the State Aid to Industries Acts, (3) Exhibition of articles turned out by handlooms, (4) Spread of elementary education and the introduction of weaving classes, (5) Improvement in the preliminary process such as ginning, cleaning, etc., (6) Close touch of the weavers with the outside world and better marketing organizations, (7) Imposition of duty upon foreign articles of similar character.

The Government of India has taken a keen interest for the development of this premier cottage industry and allotted a sum of Rs. 5 lakhs

for financing the various schemes of various provinces for effecting necessary improvement in the industry.

(ii) *The Cotton Mill*:—The first cotton mill was established in India as early as 1818 with English capital. The Indians soon came to know the importance and immense propect of this industry and several cotton mills were established in Bombay and Ahmedabad with Indian capital. The number of mills went on increasing and in 1939 there were as many 355 Cotton Mills in British India and 65 Mills in Indian States and foreign territories. Most of these mills are localised in the Bombay Presidency. The concentration of this industry in Bombay has been occasioned by the following factors :—(*a*) The large supply of capital and credit facilities, (*b*) facilities of transport afforded by the construction of railways in up country centres, (*c*) growth of the demand for yarn in China, and (*d*) large supply of raw meterials and labour. There are also sevaral cotton mills in Bengal, in Madras, in the United Provinces, in the Central Province and Berar, in Delhi and in Ajmere Marwara.

The recent expansion of textile industry in Ahmedabad has deprived Bombay of its proud position. This expansion has been favoured by the natural advantages possessed by Ahmedabad in regard to supply of labour and raw materials and easy access to large marketing centres.

The industry has two departments—(1) the spinning and (2) the weaving. The spinning department generally produces cotton yarns of lower counts : the abolition of the Cotton Excise Duty has, however, given a stimulus to the production of yarns of higher counts ; but it should be noted that the yarns turned out by the mills are not sufficient to meet the demands for them and in consequence, a large quantity of foreign yarns has to be imported every year. The weaving department has in recent times increased its scale of production because of the extensive demand for products turned out by the Indian mills. The general tendency is to spin higher counts of yarn, importing American cotton for this purpose to supplement the Indian supply, to erect more looms and to produce more dyed and bleached goods. There has been in recent times a great diminution in the importation of foreign goods.

The great war has accelerated the progress of the industry on account of ever-increasing orders placed by the military department. The Indian mills have now been called upon to meet the military requirements in India, in the middle east and in other parts of the Empire. The outbreak of war with Japan led to cessation of Japanese imports and the simultaneous increase in the export of Indian goods to Australia, the far East and South Africa. The value of textile purchased by the

Government of India on Army account amounted to Rs. 120 crores upto June, 1942. Further development marked the year, 1943 when the mills were asked to apply 60 per cent of their appliances to military demands. The price of cotton goods has swelled to an unprecedented height to the great inconvenience of the consumers. The soaring price of cotton goods is due to the following causes :—(a) inflation, (b) shortage of yarn and cloth for civilian use, and (c) heavy export of cotton goods, (d) substantial fall in imports and (e) speculation. With a view to dealing effectively with speculative rise the Goverment of India has taken measures for the liquidation of stocks of cloths in mills, shops and godowns and for regulation of exports.

The cotton Industry has immense prospect for development but certain difficulties are impeding its progress—(1) the machines are to be imported from foreign countries and therefore, to the real cost of the machines we are to add considerable amounts which are to be spent in paying up the freight and insurance charge. Again,the cost of erecting machinery is higher in India than in England. (1-*a*) Absence of up-to-date labour-saving appliances, crude and unscientific methods of handling raw materials and finished products go to enhance the cost of production. (2) India suffers greatly for want of fine cotton. The cotton used by Indian mills has to be imported from Egypt, East Africa and U.S.A. (3) The cost of production is higher on account of the inferior quality of Indian coal and the inefficiency of Indian labourers. (4) The heavy freights charged by Indian Railways go to increase the price of cotton goods. (5) The management of the Indian mills is often in the hands of persons who have little or no knowledge in the industry. The organization is also defective in many respects. The managing agency system and the system of basing remuneration on the total volume of production are open to severe criticism. (5*a*) Over-capitalisation and mal-adjustment of production are other serious defects in organization which demand immediate removal. (6) Higher dividends are paid in India than in Europe. (7) The Indian mills are not capable of producing goods of various descriptions. (8) The warm climate of India leads to the breaking of threads and thus hampers the progress of manufacturing operation. (9) The competition of cheap Japanse goods is another difficulty that stands in the way. Japan is in an advantageous position because the more favourable climate contributes greatly to the efficiency of labour and there is a large supply of female labour. The Japanese Factory Law of 1926 is also lenient as to the hours of labour. It permits the double shift system. The organised system of purchase of raw cotton and the depreciation of the yen are other advantages which Japan possesses. (10) The fall in the agricultural price has led to a reduction in *per capita* consumption and brought

a depression in the industry. (11) The frequent manipulation of the exchange ratio affects seriously the condition of the industry which has been hard hit by the latest change in the ratio from 1*s*.4*d*. to 1*s*.6*d*. (12) The increase in the world production of synthetic fibre which is largely taking the place of cotton is another obstacle in the progress of the cotton industry. (13) Labour unrest and the indifferent attitude of the mill-owners have led to frequency of strikes in India and the consequent huge losses. (14) The reduction in the rates of duties on Lancashire piece-goods as recommended by the Special Textile Tariff Board has proved a menace to the natural expansion of the industry.

They are in foreign hands.

(iii) *The Jute mills* :—The Jute mills have attained considerable progress in India on account of India's monopoly in the supply of raw materials. The mills are mainly localised on the banks of the Hooghly near Calcutta. These turn out gunny cloths, gunny bags, coarse carpets, rugs and cordage, which have extensive market all over the world. The industry is mainly financed by European and Marwari capital and is under the control of foreign enterprisers. In India there are as many as 110 Jute mills of which 96 are situated in Bengal.

Export of raw and manufactured jute.

Jute and its manufactures occupy generally the first place in the list of India's exports. In 1942-43 the total export of Jute manufactures was 616,456 tons while the total production in the same year amounted to 10,42,300 tons. Australia is the best market for Indian gunny bags ; other countries which purchase gunny bags are the United Kingdom, Egypt, Indo-China, South Africa, Java, Japan, China, Straits Settlements and the United States. Jute Industry gives immense opportunity to the labourers to get themselves employed and earn their livelihood. The amount of capital invested in this industry has risen to about 24 crores of rupees and 2·63 lakhs of persons find employment in these mills.

Jute Mill's Association.

In respect of organization the jute industry claims a pre-eminent position. The organization is highly centralised. The formation of Jute Mills' Association has led to concerted action as regards the scale of production. Up till 1935 the members of the Association restricted their working hours to forty per week. In 1936 the mills have agreed to work upto 54 hours per week on single shift with no night work. The agreement has been suspended indefinitely with effect from the 1st March, 1937 and the restriction

in work has become discretionary. On the 31st July, 1939 the members of the Association arrived at an agreement whereby mills were worked for 45 hours per week with 20% Hessian and $7\frac{1}{2}$% sacking looms sealed : since the outbreak of the war the demand for jute manufactures has increased and in consequence the restriction on working hours was withdrawn. Large orders for sand bags came from the United Kingdom and the mills had to work to their full capacity to execute those orders. The restriction on the hours of work had to be withdrawn and the mill hands were made to work for sixty hours per week. The price of jute products swelled abnormally ; the boom in this industry did not continue for a long time. The recent years have witnessed a sharp decline in the order from the United Kingdom and loss of continental and Japanese markets for jute manufactures of India. The mills have thus been forced to reduce their scales and hours of production.

The Indian Central Jute Committee has been constituted and functioning on efficient lines. Great stress has been laid upon research work and the collection and distribution of statistics and information. Arrangement has been made with the newly appointed Indian Trade Commissioner to the United States of America for the giving of periodical reports on all parts bearing on the demand of jute production in the Northern American continent.

(iv) *The Woollen mills*:—The industry has made very little progress in India. The number of mills does not exceed 41 but that the demand for their products is very large is shown by the excessive imports of woollen goods from foreign countries. The chief centres of this industry are Amritsar, Kashmere, Cawnpore, Agra, Lahore, Mirzapore, Rajputana, Bikaneer and Jaipur. The Shawl Industry of Kashmere is famous for artistic qualities of the product turned out by it. The woollen mills generally consume Indian wool and use merinos and cross-breds imported from Australia for the production of finer classes of goods. India with its 43 million sheep produce as much as 80 pounds of wool every year. This supply of raw wool means an advantage to the industry.

Foreign demand for Shawls.

The Shawls of Kashmere had an extensive foreign market in the nineteenth century. This large demand for Indian shawls continued till the outbreak of the Franco-German War in 1871 and the establishment of firms at Paisley in England which undertook the manufacture of shawls and ousted the Indian shawls from European market.

The carpet industry reached its highest development during the Mughul rule when the products of this industry were demanded in

large quantities by people of high rank. With the downfall of the Mughul Empire the industry had to face a decline in the demand of its products but the British rule brought with it a large demand for Indian carpets in foreign countries. The industry has however lost its pre-eminent position because it has to depend upon foreign market which demands only cheap products and the weavers are now guided and controlled by the middlemen who happen to enjoy the lion's share of the profits.

Decline in the industry.

Another important woollen manufacture is that of rough blanket which has an extensive demand among the poor. This industry is generally carried on in cottages. The abundant supply of wool from the sheep affords great facility to the production of rough blankets.

The disorganised condition of the cottage industry concerned with the production of woollen goods, the increasing competition from the shoddy fabrics of Italy and Poland and the rapid inroads of Japan into Indian market are problems which deserve careful consideration at the present time. These matters were considered fully by the Tariff Board in 1935 but the recommendations of the Board were not accepted by Government in view of the attitude of the the British India Corporation which refused to divulge any statistics of costs of output. The Government of India was kind enough to provide in its 1936 Budget Rs. 5 lakhs for giving assistance to the cottage industries on the lines recommended by the Board.

The recommendation of the Tariff Board and Government action.

(v) *The Silk Industry*—This industry is in a decadent condition. The Indian silk was formerly exported in large quantities to western countries but the production of cheap silk of foreign countries has brought about a decline in the export trade. The chief centres of this industry are Murshidabad, Benares, Amritsar, Surat, Madura, and Mandalay.

The chief centres of production.

When the East India Company established its trade marts in India, it tried its best to export silk manufactures to England but the serious opposition of English weavers gave a death-blow to its trade in silk manufacture. Again, the competition of China, Japan and the United States has almost driven out the Indian silk manufacture from the European market. India at present exports large quantities of raw silk in the form of waste or cocoons and imports rereeled Chinese and Japanese silk which the weavers

Foreign competition.

prefer to home-made silk because the latter is full of knots. The decline of this industry is also due to the inefficient organization, inadequate supply of capital and antiquated method of production. The importation of artificial silk has its worst effect upon the success of this industry. Recently, attempts are being made to revive this industry by the introduction of Selected Rearers System and by the imposition of high revenue duty of 25 per cent on foreign silk. The boycott of foreign goods has given a stimulus to the industry.

The causes of decline of this industry.

The industry is generally carried on in cottages with the help of the female members of the family. This industry can prosper in cottages provided steps are taken to introduce co-operative organization among producers and to protect this industry from foreign competition. It has immense prospect before it in view of the fact that the sphere of its operation is too limited and artistic for the application of labour-saving devices and that the local demand for its products has been stimulated by patriotic sentiments. With a view to giving stimulus to this industry the Government of Bengal has started two sericultural schools and introduced the Selected Rearers System according to which the passed students are helped with a stipend of Rs. 250 and seed stocks from Government nurseries for establishing rearing houses. Imperial Sericultural Committee has been encouraging silkgrowing by means of grant, and protective duty has been imposed on imports of silk yarn and silk manufactures.

Cottage system of production.

(vi) *Iron and Steel*—This industry has attained considerable development only in recent years. India has been favoured by nature with large deposits of iron-ores but the want of coal-fields in the vicinity of the iron-ores hampered the progress of this industry. In recent times several iron-ores have been discovered near the coal-fields and the difficulty which this industry suffered from in early times has been considerably minimised. There are at present several Iron and Steel Companies—viz., (1) The Indian Iron and Steel Company at Hirapur near Assansole. This Company acquired the name of Bengal Iron Company in 1936. (2) The Tata Iron and Steel Company situated at Jamshedpore in Bihar which owes its origin to the efforts of J. N. Tata. (3) The Steel Corporation of India founded in 1936, and (4) Mysore Iron and Steel Works at Bhadravati started in 1930. Tata Iron and Steel works at Jamshedpore are the largest Steel works in the British Empire. The Govern-

The draw-backs of this industry.

ment of India has helped this industry by granting bounties as well as by imposing protective duties in accordance with the recommendation of the Tariff Board.

Another important company is the United Steel Corporation of Asia started by Messrs. Bird & Co. of Calcutta at Monoharpur.

Pig iron was first produced in December, 1911 and steel was produced for the first time in 1913. Since then the production of iron and steel has increased rapidly and in 1939-40 India produced 1,838000 tons of pig iron, 1070000 tons of Steel ingots, 872000 tons of semis and 804000 finished steel. The Indian pig iron is not inferior in quality and can be favourably compared with continental pig iron. Indian companies have also increased their production of steel. Formerly the steel manufactures of India included beams, angles, bars, fishplates and rails but in 1926 a new plant was set up to produce sheets (black and galvanized), sheet sleepers, sheet bars and plates. In recent times several workshops and firms have been established and these undertake the manufacture of many important articles such as railway wagons, jute-mill machinery, galvanized products, acid steel and alloy steel, rails and tubes. In spite of these achievements of the Iron and Steel industry we cannot say that the industry has reached the final stage of development. We will be surprised to learn the large quantities of iron and steel goods which India imports every year. This makes a strong case for protection of this industry.

The quantity of manufactured products is increasing day by day. In 1939-40 the export of pig iron amounted to 571800 tons.

The Government of India has been encouraging the development of this Industry by protecting certain classes of iron and steel goods and by undertaking to purchase railway stores from Tata Iron and Steel Company. Aided by protection the industry now occupies a premier position and has effected considerable improvement in the method of production and condition of labour.

The last war gave an impetus to this industry and necessitated manufacture of special steels suitable for munitions production. Heavy orders for steel goods have been placed with the Indian firms and the diminution in the import of continental steel has gone a great way in encouraging the rapid growth of this industry. Several ordnace factories have been established and these factories are aiding in the matter of supply of war materials. The rapid increase in the military demand has aggravated the stringency in the Indian market and the Government has assumed rigid control over civilian consumption.

(vii) *Leather* :—It is one of the important industries of India. The

increased demand for shoes owing to the rise in the standard of living and the introduction of chrome process have led to the recent development of this industry. India has enough prospects for this industry as it has got an abundant supply of raw leather, and the cow-hides and goat-skins are suited to the chrome tanning. India also possesses a large stock of excellent tanning materials such as Acacia pods and bark. In spite of these advantages the chrome process has not made considerable progress because of the want of expert knowledge and costly mechanical equipments. What India now requires is efficient training and organisation. If this want is satisfied there is no doubt that this industry will attain the highest development within a short time. The tanneries are to be found in large number at Cawnpore and Agra.

Recent Development of this industry.

During the last great War the industry attained considerable development under the direction of the Munition Board. The Government had to supply boots to Indian soldiers and other goods such as picker bands,leather belting which were formerly imported into India were also produced within the country. In spite of this war-time boom the industry failed to establish itself. India still exports considerable quantities of raw hides and skins to Austria, Germany, France, Italy and U. S. A. Indian goat-skins are pre-eminently suited to the manufacture of high class glace kid and are being exported to the United Kingdom and the U. S. A. in large quantities. The Ottawa Pact which makes for preferential tariff in favour of the United Kingdom has been responsible for her increasing share of the export of leather. In 1939-40 the total value of the export amounted to Rs. 4·09 crores. India produces approximately 25,700,000 hides every year valued at Rs. 6 crores.

War-time boom : Munition Board.

The Government tried to give assistance to this industry by the imposition of an export duty of 15 per cent. with a preference of 10 per cent. to British Empire. This export duty was imposed in 1919 but this policy of the Government was severely criticised by Fiscal Commission as well as by the Taxation Enquiry Committee. The duty was reduced to 5 per cent. in 1923. The Indian Finance Bill of 1927 provided for the removal of export duty of 5 per cent. *ad valorem* on raw hides but when the proposal was put to the vote, the President gave his casting vote in favour of status quo. The duty was abolished in 1935.

Efforts of the Government.

Again, attempts are being made to develop this industry by techni-

cal research. Three such institutes have been established *viz.*, the Calcutta Research Tannery, the Government Leather Working School at Cawnpore and the Leather Trades Institute at Madras. There are also several training schools maintained by the Government and the Departments of Industries often send Demonstration parties to convey instruction to rural areas. In 1939 the position of the Tanning industry was surveyed by the Industrial Research Bureau with the object of devising ways of improving the technique and encouraging the growth of export trade.

Technical research.

The last war gave an impetus to the industry by stimulating the demand for Indian boots. Heavy orders have been placed with the Indian firms for supply of boots to the Indian Army. Considerable orders have come from the United Kingdom. As a result of this production of army boots has been increased from $1\frac{1}{4}$ million pairs in 1941 to 4 million pairs in 1943.

(viii) *The Paper Mills* :—This industry was introduced in India as early as 1870 when the Bally Mills were established and began to turn out large quantities of machine-made paper. The Titaghur Paper Mills came into existence in 1882. In the nineteenth century several other mills were established. The Ranigunj Paper Mills which was established in 1891 is now contributing much to the production of paper. The Indian Paper Pulp Company was started in 1922 and began to manufacture paper from bamboo. Recently, two other mills have been established one of which viz., the Karnatak Paper Mill, is now engaged in producing paper from paddy, straw and bamboo. At present there are as many as 14 paper mills in India, and these mills turn out about 70273 tons of paper. The most important material which is used in the manufacture of paper is Sabai grass. Indian wood cannot supply the necessary pulp and for this reason pulp has to be imported from Europe. On account of inadequate supply of Sabai grass the use bamboo fibre has been encouraged, although the latter cannot be favourably compared with the Sabai grass in respect of strength and quality. The Indian mills cannot turn out sufficient quantities of paper to meet the internal demand for the same and the result is that India has to import a large quantity of paper every year. In 1941-42 the total quantity of imported paper and pasteboard was 1382000 cwts. The paper industry has to fight with certain difficulties which impede its progress. These are (i) inadequate supply of coal, (ii) heavy cost of

The number of paper mills and the materials they use.

The dfficulties of the industry.

chemicals and (iii) competition of Germany, Scandinavia and England which have already made good progress in this industry. The industry is not able to stand on its own legs, unless it receives protection from the Government.

The Tariff Board recognised the claim of this industry for protection and in pursuance of its recommendation import duty has been levied on foreign paper.

The last war led to considerable reduction of the import of paper. The fall of Norway and Denmark and the cessation of trade with Sweden have the effect of curtailing the supply of foreign paper. The import from U. S. A. has to be regulated in order to conserve the dollar exchange. As the paper used for newsprints is chiefly imported from foreign country the Government have taken to rationing newsprint and to fixing minimum price. The Government have also adopted measures for regulating the distribution of paper and controlling its price. The price of paper has also risen and mills are being worked to their utmost capacity to remove the present crisis. The total production has increased substantially. In 1941-42 production increased to 1871000 cwts. The prospect of extension is limited in view of the acute scarcity of machine clothing, replacement parts and chemicals etc.

(ix) *Match-making Industry* :—This industry has immense scope for development in view of an extensive home market, cheap labour and simple operations to be performed. Aided by these natural advantages the industry has made considerable progress and we find today as many as twenty-seven factories working in India. The imposition of protective duty of Re. 1-8 on every gross of boxes each containing 100 matches has gone a great way in improving the position of this industry. The industry has already got a stable footing and can easily overcome the competition of foreign matches the import of which is taking a downward course. India is now practically self-sufficient in regard to supply of matches. In 1939-40 India manufactured about 22 million grosses of match boxes. The patriots of India view with grave concern the predominance of a foreign combine—the Swedish Match company in the field of match manufacture. The Government, however, has given the assurance that it will guard the activities of this foreign concern and will not allow it to assume the position of a monopolist and thus threaten this indigeneous industry. This industry suffers from these three difficulties *viz.*,—(1) the difficulty of obtaining proper kinds of wood required for the purpose, (2) the heavy freights charged by the Railways in transporting the materials while the foreign articles are carried at a very low freight, (3) the excise duty levied on

matches at rates varying from Re. 1 to Rs. 2 per gross of boxes or booklets.

(x) *Glass* :—Glass is an important article which India demands in large quantities. The women here often use *churis* which are made of glass. Ferozabad in the United Provinces and the Belgaum district in the south are seats of bangle factories but the factories have not yet achieved considerable progress. The factories are few in number and cannot meet the demand for glass in India. This accounts for heavy imports of glass-wares of various description. In 1938-39 the total value of these imports was Rs. 125 lakhs. The modern bangle factories are increasing their scale of production and undertaking production of lamp, chimneys, globes and bottles. The chief centres of production are the United Provinces, Calcutta and Bombay. The manufacturing of sheet glass with modern equipment has been a specialty of one factory in the United Provinces. The industry suffers greatly from the want of efficient labourers, of indigenous stock of soda ash and from the hot weather which causes difficulty in the matter of glass blowing. Again the absence of coal near the factories has been another difficulty which has checked the development of this industry. This difficulty can, however, be overcome if factories for the manufacture of glass are localized near the coal mines and if the glass furnaces can get a cheap supply of electricity. There is one more difficulty. This is the competition of Japan and other foreign countries. The industry is still infant and deserves protection. The question of protection was referred to the Tariff Board in 1931. The Board submitted its report, recommended the grant of protection for 10 years and suggested different rates of duties for the different classes of glasswares. The Government of India have postponed their final decision of the matter and decided to give a certain measure of relief to the industry by way of a rebate of duty on imported soda-ash. The Government of the United Provinces has, however, shown much concern for the development of this industry by constituting a glass technological section in Benares.

The glass industry and its difficulties.

(xi) *Chemical Industry* :—India has to import chemical products worth several crores of rupees every year. This industry once flourished in India but the competition of cheap foreign products has seriously affected the progress of this industry. This industry has immense prospect for success in view of the abundant stock of chemical plants and cheap fuels and certain heavy chemicals like sulphuric and hydrochloric acids.

Foreign Competition.

The indigenous supply of nitric acid, sodium carbonate and caustic soda is scarcely adequate for the success of chemical industries. India has to import a large quantity of these essentials of chemical industry from Germany and other European countries. Again, no serious attempt has ever been made for the manufacture of alkalis. It is pleasant to learn that two companies have been started, one by the Imperial Chemical Industries and the other by Messrs. Tata and Sons—for the manufacture of soda ash, caustic soda and such other essentials on the adequacy of which depends the success of heavy chemicals. Their success has been threatened by the competition of cheap freign products and it is high time that the Government should impose protective duties on these foreign products in order to afford facilities for the development of this important key industry. The Government of India has already come to the rescue of this industry and enacted the Heavy Chemical Industry Protection Act, 1931. The Act imposed duties on magnesium cloride and certain other chemicals. The duties remained in force till 31st March, 1933 with the exception of duty on magnesium chloride which remained in force till 31st March, 1939. The continuance of protection was pressed before the Tariff Board with special reference to the dumping from Japan. The Board recommended a reduction in the rate from 15 annas to 12 annas per cwt. The said recommendation was incorporated in the Indian Tariff Amendment Act of 1939. The duty so imposed will remain in force till 31st March, 1946.

India produces a large quantity of perfumes. The chief centres of production are Ghazipur, Kanauj and Jaunpur. This industry, however, cannot meet the total demand of perfumes in India and the result is that large quantity of perfumes are imported every year. At present the political agitation in India has succeeded in changing the outlook of the people and Indian perfumes are preferred to those imported from foreign countries. India has established several perfumery factories which are producing perfumes on a large scale.

Why Indian perfumes are preferred.

Simple drugs and medicines have made headway in recent times through the efforts of several Indian firms ; the recent agitation against foreign medicine has stimulated the production of indigenous products with the result that the total value of imported drugs and medicines fell from Rs. 2,36 lakhs to Rs. 2,21 lakhs.

The last great war caused substantial reduction in the import of chemicals and this reduction adversely affected the position of Indian industries. The question of manufacturing chemicals in India has

received careful consideration in the conference of chemical and pharmaceutical manufacturers in 1939. The Government has also taken keen interest in the matter. It is gratifying to learn that aviation spirit is being produced in India and many chemicals which were previously imported are being manufactured within the country.

(xii) *Manufacture of Utensils and Vessels* :—The Indians are found to use large quantities of utensils and vessels in their daily life. Even the poor people cannot do without these articles. The chief centres which contribute to the production of these articles are Benares, Srinagar, Mirzapur and Murshidabad. Recently, the aluminium utensils are used in almost every household and this has led to the development of alluminium industry of Madras.

Centres of production.

(xiii) *Shipping Industry* :—In ancient times India used to carry her passengers and goods in her own ships. These ships were mainly made of teak-wood and were superior to the European vessels; but at present Indian vessels have almost been driven out and iron-built ships of foreign countries have usurped their places. The Navigation Acts are responsible in a great measure for the present backward position of Indian Shipping Industry. Again, the combination of foreign shippers has, by temporary reduction of freight, caused the destruction of Indian concern. The Bengal Steam Navigation Company had to stop its business on account of the rate-cutting policy enunciated by the foreign ship-owners. Another difficulty which the Indian ship-owners have suffered from is the heavy rate which the Insurance Companies have charged upon them. The Government has neglected the shipping industry in India and has patronised foreign ships by purchasing their services in the matter of carrying Government stores. The policy of Deferred Rebate which goes to give the shippers a certain percentage of the aggregate freights on their fulfilling the condition of not shipping goods by any vessels other than those despatched by the members of the Conference has been detrimental to the growth of indigenous shipping enterprise. Want of suitable ship-building yards is another disadvantage which demands immediate removal.

Causes of the failure of India's shipping industry.

The policy of Deferred Rebate.

The decay of the shipping industry in India and the absolute dependence upon foreign ships have caused serious inconveniences. These foreign shippers have adopted a policy of regulating freight in such a way as to affect the interest of India's home industry.

They do not look to the comfort of the deck passengers. The need for mercantile marine is proved to the hilt, if we take into consideration the difficulties which the Indian shippers and passengers have been suffering from on account of unscrupulous policy of foreign shipping companies. The magnitude of India's coastal and sea-borne trade which is sufficient to keep the Indian mercantile marine busy, and the importance of mercantile marine as a second line of defence during war and the opportunities of employment which the mercantile marine will bring, make a strong case for the Indian mercantile marine. Again, the recent foundation of Royal Indian Navy will bear no fruit if the shipping industry is neglected. Attempt should be made to revive the shipping industry on the following lines as suggested by the Mercantile Marine Committee—(1) Reservation of the coastal trade to the shipping companies registered in India with rupee capital and having majority of Indian share-holders and directors ; (2) Preference to be given to the Indian ships in the matter of carrying government stores and granting mail contracts ; (3) Provision should be made for the training of marine engineers and other officers ; (4) Protection should be given to the shipping industries in the form of construction bounties ; (4-a) Provision for a suitable ship-building yard for an Indian Company ; (5) Establishment of a training ship at Bombay with a view to giving facilities for the training of officers. The Government has only given effect to this recommendation by the establishment of the Royal Indian Marine Vessel "Dufferin" which offers facilities for the training of Indian boys as deck-officers.

Recommendations of the Mercantile Marine Committee.

No other recommendation has as yet been given effect to. Two bills—one for reserving coastal traffic for Indian shipping and the other for the abolition of Deferred Rebate system were moved in the Central Assembly but the Government of India deferred the matter till the whole question of discriminating legislation was decided by the Round Table Conference which was then in session. The decision of the said Conference has been incorporated in the Government of India Act, 1935 and sections 113 and 115 of the said Act stand in the way of any discriminating legislation contemplated by the aforesaid bills.

In September, 1937 Sir A. H. Ghuznavi introduced in the Central Assembly a non-official Coastal Traffic Bill with the object of regulating the unfair competition in the shape of rate cutting and grant of rebates. The Bill could not win the approval of Government of India on the ground that it would stimulate shipping company mania and fail to achieve its object.

In 1939 at the initiative of Mr. P. N. Sapru the Council of State passed a resolution requesting the Government to give adequate protection to the Indian mercantile marine by way of reservation of coastal trade for Indian shipping concerns, grant of subsidies and fixation of maximum and minimum rates. This resolution could not be given effect to by the Government because it contravened the provisions of the Government of India Act, 1935.

One remarkable achievement towards the development of Indian mercantile marine is the establishment of a ship-building yard at Vizagapatam under the initiative of Mr. Walchand Hirachand who has received substantial encouragement from the Government in the shape of supply of power, favourable freight and imports of machinery.

The last great war gave an impetus to the industry by training a large number of Indians in the naval services and by introducing the manufacture of certain fighting crafts.

(xiv) *Cement Industry* :—This industry has come into prominence in recent times. India absolutely depended upon foreign countries for the supply of enormous quantity of cement consumed by her and it was only in the year 1904 that Madras for the first time commenced the production of Portland cement. After a few years three other companies —the Indian Cement Company (Kathiawar), the Katni Cement and Industrial Company (C. P.) and Bundi Portland Cement Company appeared and undertook the production of cement on a large scale. The Indian cement found an extensive market during the war time when the Government began to purchase considerable amount of cement from the Indian firms. The large profits that these companies earned tempted several other companies to take to the manufacture of cement. As a result of this many new companies were floated and cement industry made considerable progress. The Indian works now turn out a large quantity of cement every year and they have combined to function satisfactorily. They have extended their factories with a view to meeting the enhanced military and industrial requirements. The civilian consumption has to be regulated to the great inconvenience of the civil population. The Tariff Board to which the question of protection was referred, did not make any recommendation because the Board was of opinion that the Cement Industry had already established itself and had been suffering from overproduction. The internal competition has been eliminated by the merger of ten companies into one company known as the Associated Cement Companies of India Ltd. and by the agreement which these companies have made with the Dalmia group.

Condition of the Cement Industry.

(xv) *Sugar Industry* :—The sugar industry is an ancient industry of India. Bengal used to produce refined sugar which was available for export to western countries. With the establishment of sugar refineries in Great Britain, India became an exporter of raw sugar or gur. The refineries of European type were established in India but India failed to regain her former position and began to export less sugar and import more sugar.

Early stages of the industry.

The imposition of protective duty at the rate of Rs. 7-4 per cwt. (subsequently reduced to Rs. 6-12) on all classes of sugar has given a stimulus to the sugar industry. The total acreage of production has increased substantially. Many new sugar factories have been established and there are as many as 150 sugar factories in India. In 1942-43 the factories produced 1096100 tons of sugar. These factories are also extending their scale of production with the result that import of sugar has already declined appreciably. In 1941-42 the import fell down to 49000 tons as compared to 901,200 tons in 1930-31. This phenomenal growth has given the industry a position next in importance to textile industry. The prosperity of this industry has been due to the following causes : (i) Protection given to the industry by the imposition of protective tariffs by the Sugar Industry Protection Acts of 1932 and 1939, (ii) low prices of land available for the cultivation of canes, (iii) introduction of improved variety of canes and larger yield per acre, (iv) up-to-date method of extraction of juice with the help of iron crushers, (v) regulation of the minimum price of cane under the Sugar Cane Act, (vi) regulation of internal competition at the instance of the Sugar Syndicate, (vii) increase in war-time demand and the consequent lifting of the ban on the export of sugar, (viii) relaxation of the restriction on production as a war-time measure, and (ix) absence of export from Java due to war situation. Better results may be expected if greater stress is laid upon research work by providing the Imperial Council of of Agricultural Research with requisite funds for the purpose. There are, however, certain difficulties which stand in the way of this industry. These are :—

The recent stimulus.

(i) The heavy freights charged by the railways in conveying indigenous sugar to various parts of India, (ii) the relatively lower rates charged on imported sugar, (iii) the strong hold of imported sugar in port town, (iv) the internal competition of the sugar factories, (v) want of central marketing organisation and standardisation in the quality of sugar, (vi) the recent imposition of excise duty on sugar produced in British India, (vii) the

The difficulties.

banning of the export of refined sugar by sea under the International Sugar Convention of 1937.

The Great war did not open new market for Indian Sugar. Nevertheless there was a sugar famine for a period of time.

The prices of sugar were forced up unduly high in 1939-40. This rise was principally due to want of transport facilities. To prevent the speculative trend in prices the Government of India has instituted an all-India price control in respect of sugar and has appointed a Sugar Controller for India.

(xvi) *Lac Industry* :—The importance of this industry cannot be ignored because lac has various uses, the chief use being in polishing furniture. With the growth of gramophone industry the lac industry has got an extensive market for its products and as a result of this research work has been stimulated with a view to improving methods of cultivation. The Lac Research Institute has been set up at Namkum in Bihar. The prosperity of this important industry depends upon the scientific culture of insects which are found in the twigs of certain trees.

(xvii) *Oil-Milling Industry* :—India has an abundant supply of oil-seeds and has been in the habit of exporting these seeds to foreign countries. This heavy export of oil-seeds deprives the country of any profit which manufacture brings with it and of oil-cakes which may be used as good fertilizer and cattle food. It is high time that India should impose restriction on the export of oilseeds and take increasing interest in developing the oil-milling industry. The antiquated method of pressing oil with the help of the Ghani is to be replaced by more scientific method which is in vogue in Europe and America. To effect this improvement oil-mills should be provided with the up-to-date machinery worked by steam or electric power. This has been secured but the industry has got to surmount the following difficulties which stand on its way :—First, the oilseeds are allowed to enter foreign countries without any duty while the manufactured oil has to pay high protective duty. Secondly, the freight on oilseeds is lower than that charged for the carriage of manufactured oil. Thirdly, want of standardization of Indian oils and oil-cakes and the inferior quality of the products turned out by Indian Mills are other causes which deprive Indian oils and cakes of an international market. Fourthly, the Indians even now prefer ghani-made cakes to the mill-made cakes although the latter constitute a better food for the cattle.

(xviii) *Film Industry* :—The Film industry occupies an important position in modern times in view of the increasing demand for its

products. It now occupies the eighth place in order of importance. The early start was given by Bombay and other provinces did not remain indifferent. Within a few years the industry has made extensive and rapid progress. The industry has already attracted huge amount of capital and the annual expenditure in the production of pictures comes up to Rs. 20 crores. There are at present about 150 film producing concerns. The principal film producing studios are located at Bombay, Poona, Calcutta, Kolhapur, Bangalore, Madras, Coimbatore, Lahore, Jubbulpore, Karachi, Lucknow, Vizagpatam, Rajahmundry, Salem and Erode. The industry can attain greater success if the two defects which stand in the way are removed. These defects are (1) lack of co-ordination among producers and (2) language difficulties.

The number of cinemas showing Indian films is 1000 out of a total number of 1265 cinemas working in India. India has to import foreign films and shorts every year. Over half of the raw films come from the United Kingdom but most of the equipments come from U. S. A. This import has to pay heavy custom duty and the revenue derived from this source has gradually increased from Rs. 2 lakhs to about Rs. 14 lakhs in the course of 17 years. The Central Government also gets a substantial amount by way of income-tax and railway freights. The industry again has contributed to the Provincial Revenue as much as Rs. 40 lakhs which represent the proceeds from entertainment tax.

(xix) *India's Expanding War production* :—The last war to which India was made to contribute her men and resources on behalf of Great Britain and her allies brought about a rapid expansion of industries. Mills and factories were worked to their utmost capacity with a view to supplying the sinews of war the demand for which increased abnormally on occount of increasing recruitment to the Armed services. There has been a phenomenal expansion in the Government Harness and Saddlery Factory. The ordnance factories have been established and their efforts in this connection have been supplemented by the Railway and trade workshops. A new army of technicians have been employed to assist the manufacture of war materials. Production of gun, ammunitions, rifles, bayonets, light machine guns, shells and cartridges has been encouraged in all possible ways and new plants have been established for the purpose.

The manufacture of explosive has expanded rapidly and many large plants have been in operation for the manufacture of toluene, acetone and other acids. High explosives and Composition Exploding are also being manufactured. A parachute factory has been started for the production of parachute equipments. New types of steel not hitherto manufactured in India have been produced, and this means the most

outstanding development for this key industry of India. About 80 per cent of the Steel production of India have been reserved for the military purposes and for the essential services to the great inconvenience of the civil population.

Considerable progress has been achieved in the manufacture of electrical cables and a new factory has been established for the manufacture of "D" class signalling cables. The use of plastics has been encouraged and an improvement has been effected in the technique on dies casting.

Machine tools which were usually imported from foreign countries before the war are now being manufactured by the five leading manufacturers with the help of imported technical staff. Ship-building is receiving impetus under the control of a separate Directorate-General.

The progress of the textile industry has already been emphasized and it is a matter of great pride for the Indians that India now ranks as the biggest clothier for the Army within the British Empire.

An aircraft factory has been established and this factory has already taken an effective part in the repair and maintenance of aircraft.

Considerable progress has been achieved in the manufacture of cement, paints, medical instruments, rubber goods, basic chemical and power alcohol.

The cottage industries of India have missed no opportunity and joined in this battle of production with new vigour. They have executed war orders to the value of several crores of rupees. This unprecedented increase in the demand for their goods has gone a great way in improving their economic position. The number of medical instruments for the Defence Services produced in India has increased and these are available for export after satisfying the internal demand.

This war time industrial boom has revolutionized the conditions of labourers by throwing open new avenues of employment. They have been encouraged by the favourable rates and dearness allowance to render their whole-hearted services. Adequate arrangement has been made for the training of labourers so that they may discharge the responsibilities attached to their jobs. About 40000 men are under training and the periodical despatch of Bevin Boys to Great Britain still continues.

(xx) *Motor Industry* :—The automobile industry has an immense prospect for success before it. India can afford to supply the raw materials required for the manufacture of motor cars. There is also adequate supply of skilled labour. The demand for motor cars is increasing rapidly in view of the extensive development of

motor transport. The demand will increase in the near future when effect is given to the Post-war plan for road development. Again, the inportant part played by motor transport during war time points to the necessity of developing the industry as a purely Indian concern. Hence it was proposed to start a joint-stock company with a capital of Rs. $2\frac{1}{4}$ crores and to open a factory at Matunga under the supervision of the Chrysler Corporation of America. The industry has certain initial difficulties to fight with and is in need of protection. The most important difficulty manifests itself in the matter of supply of machinery and technicians. This can be easily overcome by importing foreign machinery and technicians from U. S. A. The Government of India can encourage this industry by making their purchases from the proposed company and by reducing the duties levied on the import of machinery. The Government can protect these industries by imposing additional duties on foreign cars.

Questions and Answers

Q. 1. State concisely some of the chief obstacles in the way of India's economic progress. What are the country's requirements for an efficient manufacturing growth and what are the special needs for agricultural development? (C. U. 1909.)

Ans. *See*—Sec. 37.

Q. 2. What do you consider to be the real function of foreign capital in developing the resources of a backward country like India? Consider the educative influence of foreign capital in this country. (C. U. 1919.)

Ans. *See*—Sec. 21.

Q. 3. Arrange in order of their importance the chief industries of India. Give the main features of India's agricultural problem and other steps taken by the Government during the last fifty years to meet some of the evils of our agricultural situation. (C. U. 1910.)

Ans. *See*—Secs. 42 and Ch IV.

Q. 4. Write a note on the production and character of coal and iron-ore in India, indicating location of mines with special reference to the possibilities of Bengal Coal Industry. (C. U. 1910.)

Ans. *See*—Sec. 42.

Q. 5. Describe the present condition of the Handloom Industry. To what extent and under what conditions can it be compared with Powerloom industry? (C. U. 1914.)

Ans. *See*—Sec. 42.

Q. 6. What in your opinion are chief hindrances to industrialisation in our country? How can we avoid the evils of the later day industrialism of the west? (C. U. 1930.)

Ans. *See*—Sec. 37.

Q. 7. Examine briefly the limits and direction of state action with regard to the development of manufacturing industries of India. (C. U. 1920.)

Ans. *See*—Sec. 35.

Q. 8. Enumerate the chief defects of Indian industrial labour and suggest measures for improving its efficiency. (C. U. 1920.)

Ans. *See*—Sec. 11.

Q. 9. Comment on the following :—"Even if the system of production on a large scale be adopted in India, the small industries need not die out." (C U. 1925.)

Ans. *See*—Sec. 30.

Q.10. Examine the possibilities and limitation of handloom cotton industry in India. (C. U. 1927.)

Ans. *See*—Sec. 42.

Q. 11. What are the different forms in which foreign capital enters India? How far does the employment of foreign capital help or hinder the development of Indian industries ? (C. U. 1926.)

Ans. *See*—Secs. 22 and 25.

Q. 12. Mention the measures which may conduce to the improvement of Indian handicrafts and cottage industries under present condition. (C. U. 1921.)

Ans. *See*—Sec. 31.

Q. 13. What method would you suggest for the improvement of efficiency of Indian mill labour ? (C. U. 1920.)

Ans. *See*—Secs. 10-13.

Q. 14. Write a brief critical note on the hoarded wealth of India. (C. U. 1918.)

Ans. *See*—Sec. 26.

Q. 15 Account for the high birth-rate and death-rate in India.

Ans. *See*—Sec. 6.

Q. 16. What remedies do you suggest for overcoming the miseries due to over-population in India ?

Ans. *See*—Sec. 10.

Q. 17. Give an account of the Factory Legislation in India.

Ans. *See*—Sec. 13.

Q. 18 Discuss the importance of cottage industries in the rural economy of India ; how can these industries be made more efficient ? (C. U. 1940-1945.)

Ans. *See*—Secs. 29-31.

Q. 19, Discuss the comparative advantages of manufacture over agriculture.

Ans. *See*—Sec. 39.

Q. 20. What is the position of jute in the foreign trade of India? Discuss in this connection the economic effect of the restriction of jute cultivation as advocated by the Congress party in Bengal. (C. U. 1919.)

Ans. *See*—Sec. 39, Sub-sec. (iii).

Q. 21. How do you explain the survival of the cottage industries in modern

India ? What means would you suggest to improve their efficiency in the face of competition with the machine industries ? (C. U. 1916.)

Ans. *See*—Sec. 31.

Q. 22. Discuss fully the importance of Indian industrial labour. How far do you think it might be possible to counteract them ? Indicate the lines of reform that you would suggest. (C. U. 1930.)

Ans. *See*—Secs. 11 and 12.

Q. 23. Examine the arguments for and against the use of foreign capital in India. (C. U. 1931, 1934.)

Ans. *See*—Sec. 22.

Q. 24. Discuss the possibility of developing cottage industries in Bengal. Would such an attempt, in your opinion, be successful ? Give reasons for your answer. (C. U. 1934.)

Ans. *See*—Sec. 31.

Q. 25. Examine the present position of the hand-loom industry in India. Suggest means for the improvement. (C.U. 1935.)

Ans. *See*—Sec. 42.

Q. 26. Account for the causes of the Industrial backwardness of the people of India. What measures would you suggest for the rapid industrialisation of the country ? (C. U. 1935.)

Ans. *See*—Secs. 35 and 37.

Q. 27. 'Over-population lies at the root of Indian poverty.' Do you accept this view. (C. U. 1936 ; 1940.)

Ans. *See*—Sec. 9.

Q. 28. Account for the comparative inefficiency of Indian industrial labour. What measures would you suggest to improve the efficiency of Indian labour.

(C. U. 1935 ; 1939.)

Ans. *See*—Secs. 11 and 12.

Q. 29. Discuss the conditions under which the products of handicrafts can compete with machine-made goods. Illustrate from Indian condition. (C. U. 1928.)

Ans. *See*—Sec. 31.

Q. 30. Examine the present position of the jute-manufacturing industry in India. (C. U. 1939.)

Ans. *See*—Sec. 42 (iii).

Q. 31. Discuss the possible danger of employing foreign capital in developing the natural resources of India. Under what conditions can foreign capital be allowed to take a share in the development of a country's resources ? (C. U. 1940.)

Ans. *See*—Secs. 22 and 23.

Q. 32. Describe the financial needs of Indian industries. (C. U. 1940.)

Ans. *See*—Sec. 37.

Q.33. Discuss the methods of financing business that are available to the Indian farmer. Are they adequate and efficient. (C U. 1942.)

Ans. *See*—Sec. 21.

Q. 34. How would you judge whether the population of this country is growing too fast or not? (C. U- 1942.)

Ans. *See*—Secs. 2 and 7.

Q. 35. Is it desirable and feasible to keep our cottage industries alive side by side with our growing large-scale factories? (C. U. 1942, 1944).

Ans. *See*—Sec. 30.

Q. 36. Describe the different methods by which capital is raised for Indian industries. Are these methods adequate?

Ans. *See*—Sec. 28.

Q. 37. Examine the causes of the inefficiency of industrial labour in India. Discuss the inter-relation between the standard of living and efficiency. (C.U. 1943.)

Ans. *See*—Sec. 11.

Q. 38. Discuss the effects of the present war on Indian industries. (C. U. 1943.)

Ans. *See*—Sec. 36.

Q. 39. What do you know about any one large factory-industry in India. (C. U. 1945.)

Ans. *See*—Sec. 42.

Q. 40. Discuss the advantages of developing a marcantile marine owned and managed by Indians. What steps would you suggest for the purpose. (C. U. 1943.)

Ans. *See*—Sec. 42.

CHAPTER VII

CONSUMPTION

Sec. 1. Nature of Indian Consumption.

The standard of living.

The standard of living is not the same in all countries. There is no such thing as universally fixed standard of living. It varies (*i*) with the economic position of different countries, (*ii*) with the difference in natural and social environment under which people of different countries live, and lastly (*iii*) with the ideals of life that people of different countries entertain. Men living in a prosperous country with a cold climate will necessarily have a higher standard of living than those belonging to a poor country with a warm

climate. Again, people with a spiritualistic ideal of "plain living and high thinking" will certainly have a lower standard of living than those with a materialistic disposition.

In India we have all the above circumstances which go to lower the standard of living. The country is poor, the climate is warm and the people are of spiritualistic disposition. All these three factors have been responsible for the low standard of living in India. We should not, however, think that the Indians, irrespective of classes have the same standard of living. The standard of living is different among the different classes. Thus there is not one standard of living but many standards of living in a vast country like India. Let us divide the whole population of India into three classes *viz.*—(1) The rich, (2) The middle-class men, and (3) The poor.

Low standard of the Indians.

The standard of living of the rich is higher than that of the middle-class people and still higher than that of the poor. They consume nutritious articles like meat, milk, butter, and ghee in large quantities. They live in well-ventilated buildings, well-decorated with furniture of every description. They spend a large amount of money in purchasing decent and valuable dresses and spend large amount for the education of their children. But the number of such people is very small in India.

Standard of the rich.

Then we come to the middle-class men and find that their standard of living is much lower than that of the rich but higher than that of the poor. These people spend a very large precentage of their income on food and dresses. They cannot afford fo wear valuable dress but have to remain satisfied with plain and simple ones. They seldom consume nutritious articles like meat, milk, ghee and butter and the amount spent in procuring dwelling houses is not very large. This class consists of a large number of people than the former class *i. e*, (the rich).

Of the middle class.

Next we come to deal with the standard of living of the poor. They are destined to live miserable lives. They are to live in insanitary houses, eat unwholesome food and wear dirty cloths. They cannot afford to train their children even in elementary schools. In certain seasons of the year *viz.* in the rainy season they often fail to secure the barest necessaries of life.

Of the poor.

We have seen above that the economic position of a country has a

great influence upon the standard of living of the people. The small income of the Indians which is due to the absolute dependence upon agriculture as the sole industry, compels them to curtail their wants in every direction. The result is that they fail to consume the articles that are necessary for efficiency and remain poor for all time to come. This unhappy state of things cannot be improved unless and until the country is industrially developed.

Again, another cause of misery of the population is to be found in the spread of western civilisation. The Indians are trying to imitate the western fashions in the matter of dress with the result that a large percentage of their income is being spent in dress to the detriment of their health and strength.

Sec. 2. Nature of Indian Diet.

The staple food which the Indians habitually consume is rice which contains 80 per cent of starch and only 7 per cent of protein ; along with this rice they generally take sufficient quantity of dal or pulses, some amount of vegetables and small quantity of fish. The 'dal' contains sufficient protein and fish contains much of nitrogenous matters. Although some amount of starch is needed to constitute good diet, consumption of too much starch is detrimental to health. This is the reason why the Indians generally suffer from indigestion and dyspepsia. It should be remembered that vegetables contain properties which can neutralise the evil effects of excessive starch consumption. The Indians will, therefore, do well to consume sufficient quantity of vegetables. Another important point that should be particularly noted in this connection is the preparation of food. In preparing food care should be taken to use as small a quantity of spice as possible.

Questions & Answers

Q. 1. What is the nature of Indian Consumption : how does it differ from that of civilised countries ?

Ans. *See*—Sec. 1.

O. 2. What is the character of Indian' Diet ?

Ans. *See*—Sec. 2.

CHAPTER VIII

INDIAN FAMINES

Sec. 1. History of Indian Famines.

Famines were not unknown to ancient India but the occurrence of famines was not so frequent as it has been in recent times. The terms "Mannantar" which is a synonym of famine and implies the end of an era goes to show that famines occurred only after long intervals.

In the Muhammedan period we have sad records of four famines but famine became more frequent during the rule of the East India Company. The situation has become worse since the passing of the throne to the Crown and India became the victim of as many as ten devastating famines in the course of 40 years ending in 1900.

The outbreak of famine has become more frequent in the twentieth century and we will seldom find a year in which some part or other of the country does not suffer from scarcity of food.

The Bengal Famine of 1770.

One of the most terrible famines that broke out during the rule of the East India Company was the Bengal famine of 1770. The principal causes of this famine were the failure of rains and the defective administration of the country by the company. This was followed by another famine in Northern India in the year 1784.

The only step that the Government used to take in those days for relieving the distress of famine-stricken people was to regulate the trade of grain and to fix the price of it.

The North-India Famine of 1860.

The first and the most serious famine that broke out during the Crown period was the famine of 1860 which visited Northern India. This famine was occasioned by the failure of rains and the disorganisation of trade brought about by the wars of the Mutiny. The Gorvenment tried its utmost to remove the distress of the people during that time by supplying able-bodied persons with employment and providing others with gratuitous relief.

The Famines of 1866 and 1876.

Next came two other terrible famines one of which visited Orissa in 1866 and the other broke out in Southern India in 1876. During this time the relief-policy of the Government was too lenient to be satisfactory.

A Famine Commission was appointed in 1878 to make recommendation as to the principle that should be adopted in granting famine relief. The Commission recommended that relief should be granted in such a way as not to encourage improvidence and demoralisation among people suffering from the effects of famine. The best policy of famine relief will be to provide able-bodied persons with employment by opening out relief works and to supply others with gratuitous relief. A famine insurance grant was started in 1878 necessitating the provision of Rs. $1\frac{1}{2}$ crores in the annual budget for the purpose of financing the direct and protective measures of famine.

The recommendation of the Famine Commission.

The short period that intervened between the year 1889 and the year 1897 witnessed three terrible famines. A second Commission was appointed in 1898 to make recommendation on the principle of famine relief. The Commission recommended that special care should be taken in relieving the distress of the weavers and people of certain hilly tribes who were quite helpless during that famine.

The Second Famine Commission.

These famines were followed by another famine which visited the Punjab, Rajputana and several other parts of India. A famine Commision was appointed in 1901 to recommend the soundest principle of famine relief. It recommended that the famine policy to be adopted by the Government should be neither too strict nor too lenient. The Commission recommended a policy of putting heart in the people by an early suspension of revenue and liberal distribution of Takavi loans. It also emphasized the importance of devising measures for tackling a fodder famine.

The Third Famine Commission of 1901.

Several famines visited India in 1907-08, in 1913-14 and 1918-21 but these were local in character and did not require any large scheme of relief. In 1929-30 famine occurred in parts of the United Provinces, the Central Provinces and the Punjab, owing to the failure of rain. Scarcity of food also was caused by flood in some parts of the Punjab, the North-west Frontier Province, Assam, Burma, Bengal, Bombay Beluchisthan and Kashmir. In 1936 famine visited Bengal and some other parts of India. This famine was principally due to floods which damaged the crops of 1935. In 1939 large tracts of Kathiawar suffered from severe famine owing to the failure of rains. In 1942-43 we had the bitterest experience of food famine in India.

Recent famines.

Sec. 2. Economic Causes of Famine.

In this section we shall deal with the causes that are responsible for the frequent occurrence of famine. Famine which means scarcity of food-stuffs is said to visit India when on account of inadequate rainfall or excessive rainfall there has taken place a failure of harvest. India depends mainly upon heaven for the supply of water and in consequence, every failure of rains is followed by a failure of crops. The root cause of Indian famine is therefore, either the failure of rain or excessive supply of rain-water which makes cultivation of the soil impossible. Sometimes failure of crops is caused by locusts and other kinds of insect pests which take away the essence of the crops.

The want of rainfall or excessive rainfall.

(2) The next important cause of Indian famine is the poverty of the people. The average income of the people is too small to leave any surplus behind after their necessary expenses have been met. Thus they have no reserve fund to fall back upon in times of scarcity. Again, there are some pernicious social customs which compel them to spend large amount of money on ceremonial occasions and often we find the Indians incurring heavy loans at an exorbitant rate of interest. It has been said that *famines of India are famines of money and not famines of food*. This is virtually true inasmuch as we find that there break out famines in some provinces of India when the other provinces have sufficient stock of food crops. The people of the famine-stricken area suffer mainly for want of money. If there is sufficient supply of money they can easily purchase food-stuff from other provinces and thereby remove their difficulties.

The poverty of the people.

(3) Another important cause is the almost absolute dependence upon agriculture. The Indians depend mainly upon agriculture for their maintenance and industrialisation is still in its infancy in India. The result is that every time there is a failure of harvest and there is no work for the peasant in the field they are thrown out of employment. They become quite helpless and find no other means of earning their livelihood. Contrary is the case in an industrially developed country. In such countries there are diverse kinds of industries where people can find employment and depression of one industry does not affect the material condition of the people very much.

The absolute dependence upon agriculture.

Excessive land assessment :—It has been held by Mr. R. C. Dutt that the system of land revenue as prevalent in India is another cause of famine. The temporary settled districts of India have to pay a

large percentage of the fruits of their labour to the Government as revenue and what is left after revenue has been paid is scarcely sufficient for the maintenance of the poor peasants. The Government has tried in vain to adduce evidences to show the unsoundness of this criticism.

Sec. 3. The Economic effects of Famine.

We have studied in the preceding section the causes of famine. Let us now turn to discuss its effects. The scarcity of food during the times of famine is responsible for the untimely death of thousands of people and those who survive have their efficiency greatly jeopardized. Want of nourishment during famines tells upon the health and strength of the masses and epidemics of various kinds appear on the scene and cause further destruction of human lives. The diminution in the supply of human agents of production which is thus brought about, retards the economic progress of the country for several years. Famine also causes destruction of the humble stock of capital which a poor country like India may happen to possess. All the savings of the people are spent during this time and the agricultural livestock die out for want of fodder. There comes a depression of trade and industry and it continues for several years together. The moral structure of the country is destroyed and crimes of all descriptions vitiate the atmosphere. The Government has to incur considerable expenditure on famine relief and to grant remission of the revenue payable by the distressed people while its revenue is severely affected by the disorganisation of trade and industry and the consequent loss of taxable capacity of people. The total direct expenditure in this connection amounts to an average of one crore of rupees a year.

It has its worst effect upon the supply of labour and capital of the country.

Sec. 4. Suggested remedies.

Several remedies have been suggested for preventing the occurrence of famine as well as for mitigating the miseries that famines bring with them.

(1) The most important of these remedies is the improvement of the system of irrigation. The immediate cause of famine is either the failure of rainfall or excessive rainfall. If the system of irrigation is improved, the failure of rainfall will cease to affect the agricultural prosperity of India and famines will be few and far between. With regard to the latter cause, *viz.* the excessive fall of rain the only remedy that we can suggest is the improvement of the drainage system of the country.

(2) The next important remedy is the preservation of forests which greatly influence the rainfall by keeping the atmosphere up to a certain height cool. The forests also provide the cattle with fodder the supply of which is very small in India.

(3) Another remedy that is often suggested is the improvement of agriculture by the introduction of scientific method of production. The cultivation of land by this method will certainly increase the return from land and will thereby improve the economic position of the peasants. Production can be profitably carried on according to scientific process only when there is consolidation of small holdings.

(4) The revival of the cottage industry is another important remedy that may be suggested. The cottage industry provides the people with a by-occupation and affords opportunity for the best utilisation of the labour of women and children who will otherwise remain absolutely dependent upon the male adult members of the family. The average income of the people will increase and strengthen their economic position.

(5) The industrialisation of India is another important remedy. The poverty of the Indians is due to the increasing dependence upon agriculture. Famine makes its appearance whenever there is failure of harvest and the misery of the people knows no bounds. If there are diverse kinds of industry the failure of crops will cease to affect the economic condition of the people very much and people who are out of employment will without difficulty be able to transfer their labour to other industries which are not under depression.

(6) Another remedy that is often suggested consists in improving the credit structure of the country. The poverty of the peasants is mainly due to the exorbitant rate of interest extorted by the village money-lenders. If the Government comes forward and uses a part of the Famine Insurance Grant by way of loan to these poor agriculturists their economic position will be better and their resisting power against scarcity and famine will increase.

The people should try to improve their own condition by means of co-operative organisation. Such organisations will certainly help them in the matter of purchase of manures, seed and implements of production and will enable them to get loans at a lower rate of interest.

(7) Efforts should be made to remove the illiteracy of the poor and to teach them how to make the best use of their resources. The legislature should make laws restricting the tenant's power of alienating their lands.

(8) The system of assessment of land revenue should be remodelled.

Our experience shows that people living in the temporary settled areas suffer more frequently from scarcity of food than those of the permanently settled districts. The introduction of Permanent Settlement throughout India will, we hope, check the recurrence of famines. The system of taxation should be based upon sound principles. The heavy incidence of taxation upon the poor takes away their resisting power. Again, the present administrative machinery which favours centralisation of power is detrimental to the economic interest of the people. Village organisations such as Union Boards should be vested with certain judicial powers so that they may decide disputes of the people and thus reduce the cost of litigation.

(9) The construction of railways all over India is another important remedy that is often suggested. The services that are rendered by the railways during the famine times can never be exaggerated. They facilitate the transportation of food-stuffs from the parts where there is plenty to those where people are suffering from scarcity. The rapid construction of railways has changed the character of famine. Formerly famine meant scarcity of food, now it has come to mean scarcity of money.

(10) Famine sometimes occurs in certain areas because the pressure of population upon such areas is greater than that on the other parts of India. In such cases the remedy lies in the proper distribution of population according to the economic condition of various parts of India. Emigration of population from India to other parts of the world reduces the number of mouths to be fed and improves the pecuniary condition of the people.

Sec. 5. How the Government grants Famine relief.

To grant relief to the famine-stricken people is one of the most important duties of the Government. Every popular Government must therefore set apart a particular fund every year for insuring against famines. The Government of every province in India has appreciated the necessity of such a fund and in the annual budget a considerable amount is allotted to the item known as the Famine Relief Fund. Every province has its own Famine Code which lays down the duties of the Government officers when famine has actually broken out. The Government makes a preliminary study of weather condition, and the position of staple crops and prices and keeps prepared the scheme of relief works when the visit of famine is apprehended.

Provision is made for a Famine Insurance Grant.

The policy that is usually adopted by the Government in granting famine relief may be briefly described as follows :—

When there are signs indicative of the approach of famine the Government tries to help the people by remission of land revenue and by granting loans to the poor agriculturists. It seeks the co-operation of private citizens who have means to render assistance to the poor people and prepare lists of persons who are in urgent need of relief. If the number of these persons increases,poor houses are sometimes opened.

If the adoption of these preliminary steps fail to remove the distress of the people, the test works should be opened in order to test whether famine has acutally manifested itself. The Government should proceed carefully and its policy should neither be too strict, nor too lenient.

Test works.

When the distress of the people becomes more acute Relief works are thrown open and people are provided with employment at a certain minimum wages. Gratuitous relief is granted to those persons who on account of their inability and caste prejudices cannot get themselves employed in those works. Proper medical arrangement is made for combating epidemics which break out in the affected area.

Relief works.

When the rains set in the Government adopts a new policy of granting loans to the agriculturists in order to help the latter in their agricultural pursuits. If this is not done there will be failure of crops and the misery of the famine-stricken people will never come to an end. The relief-works are closed when the harvest of the next year has provided the distressed people with independent means.

Granting loan during rainy season.

Sec. 6. Famine Insurance grant : Famine Relief Fund : Famine Trust Fund.

The Famine Insurance Grant was instituted in 1876 and Rs. $1\frac{1}{2}$ crores were annually set apart for guaranteeing the continuous progress of protective works. The first charge on this grant is famine relief, the second, protective works and the third, the avoidance of debts. Under the rules framed under the Government of India Act, 1919 every province has to contribute a fixed sum every year for expenditure on famine. If the sum is not spent on famine relief it goes to build up the Famine Relief Fund which is primarily available for expenditure on famine relief. The balance, if any, at the credit of the fund is regarded as invested with the Governor-General in Council and is available for expenditure on famine when necessary, and under certain restrictions on protectective and other works for relief of famine.

Famine Relief Fund.

The new constitution of 1935 does not make any provision for

separate Famine Relief Fund. With the introduction of provincial autonomy on the first day of April, 1937 the balances lying in the Famine Relief Fund have been made over to the Provinces and it has become the task of Provincial Governments to take measures in this behalf by appropriate legislation. Each Provincial Government with the exception of Assam has already passed appropriate Act for the establishment of a new fund for famine relief and investment of its balances in the securities of the Central Government.

Trust fund.

Besides this Government provision there is Trust Fund created out of the donation of Rs. 15 lakhs by the Maharaja of Jaipur and amalgamated with the United Provinces Famine Orphans' Fund. This fund stood at Rs. 32,59,600 in 1934. The fund has been permanently invested and the income from it is available for expenditure for relief works when necessary.

Sec. 7. Measures taken by the Government for Preventing famines.

We have discussed in the preceding section the sevcices that the Government renders in relieving the distress of the famine-stricken people when famine has actually broken out. But the duty of the Government does not end there. It should also try its level best to prevent the recurrence of famine by eradicating the causes that are responsible for the outbreak of famine. Let us see what the Government has done to combat this evil.

The measures taken by the Government for preventing famines may be described as protective measures. These measures have taken three different forms *viz.*, —(1) the construction of protective railways, (2) the construction of protective irrigation works, (3) the reduction of debts.

Why the extension of the railways is necessary ?

The railways assist the prevention of famines by facilitating the transportation of food-stuff from one district to another. The cost of food-stuffs in the famine-stricken area scarcely differs at the present time from the price of the food-stuffs in parts unaffected by famines. The famines of the present day are *famines of money and not of food-stuffs.*

The necessity of irrigation.

The agricultural industry cannot flourish if the supply of water is uncertain. The Government spends some parts of the Famine Relief Funds in the construction of irrigation canals. The fund is also used to reduce or redeem debts. Expenses are incurred in the protective works and in connection with the reduction or avoidance of debts only if money is avaliable after the famine relief has been granted.

The Government has devised other ways of removing the occurrence of famine. It has introduced a system of granting loans to the poor cultivators at a reduced rate of interest. It is always encouraging the establishment of co-operative credit societies which are expected to provide the people with cheap and easy credit.

The granting of Takavi loons.

Sec. 8. Recent Food famine in India : its Causes.

The year 1942-43 witnessed a devastating famine which was associated with unprecedented rise in the prices of food-stuffs. Hitherto famine in India generally meant famine of money and not of food-stuff because food-stuff could be easily supplied with the help of Railways from the provinces which had plentiful supply. The position was otherwise during 1942-43. Every province was more or less affected but the province of Bengal was the worst sufferer. The following causes were responsible for these intensive and extensive scarcity of food-stuffs :—

(i) Stoppage of exports from Burma due to Japanese occupation, (ii) exports of food grains from India to foreign counries, (ii) lower output of food grains in many areas owing to natural calamities like locusts, cyclone and flood, (iv) interprovincial restriction on the free movement of crops, (v) want of transport facilities owing to military control over railways, (vi) the most injudicious inflation resorted to by the currency authorities, (vii) faulty system of rationing and price-control, (viii) hoarding and profiteering.

If we study the food situation in India in general and in Bengal in particular we cannot ignore the part which cyclone, locusts and flood played in reducing the supply of food-stuff. We also appreciate the difficulty which has followed by reason of the occupation of Burma by the Japanese. Those were factors over which the Government of the country had no control ; but all other factors which complicated the food situation could be easily brought under control if the Government of India could move more swiftly and decisively in taking the mater in hand. Again, the Gevernment of Bengal which was all along busy for the maintenace of its position and power could not take the matter into serious consideration and avoid the horrible scene of starving millions. The Government of the country has no doubt an onerous responsibility in giving adequate relief to the famine-stricken people and stands condemned whenever it fails to discharge that responsiblity ; but the foodcrisis of the type which is still persisting in India is a national crisis which can scarcely be tided over without the willing co-operation of the people.

Questions and Answers

Q 1. Explain the character of Indian Famines and estimate their causes. What are in your opinion, the most effective remedies to meet this calamity? (C. U. 1909.)

Ans. *See*—Secs. 2 and 4.

Q. 2. Write notes on :—The Famine Insurance Fund. (C. U. 1909.)

Ans. *See*—Sec. 6.

Q. 3. Estimate the following as remedies against famines :—

(*a*) Increased irrigation.

(*b*) Increased transport facilities.

(*c*) Increased Industrialism. (C. U. 1912 & 1918.)

Ans. *See*—Sec. 4.

Q. 4. Describe the relative values of Railways and Irrigation Works in India as Famine Protective works. (C. U. 1914.)

Ans. *See*—Sec. 7.

Q. 5. Enumerate the various measures which are taken in relieving the affected population (*a*) in the early stages of a famine, (*b*) in the midst of a famine, (*c*) after a famine is over. (C. U. 1915.)

Ans. *See*—Sec. 5.

Q. 6. Enumerate the general principles on which famine relief is administered in India. (C. U. 1915.)

Ans. *See*—Sec. 5.

Q. 7. Discuss critically the question whether famines in India are famines of food or famines of money. (C. U. 1917.)

Ans. *See*—Sec. 2.

Q. 8. What are the principal measures adopted by the Government for relief in the event of famine? Can you suggest any improvement upon the existing methods? (C. U. 1919.)

Ans. *See*—Secs. 5 and 7.

Q. 9. Write brief notes on Famine Insurance Fund. (C. U. 1929.)

Ans. *See*—Sec. 6.

Q. 10. Describe the famine relief policy of the Government of India. (C. U. 1935.)

Ans. *See*—Secs. 5 and 7.

CHAPTER IX

DISTRIBUTION

Sec. 1. Indian Principle of Distribution.

We all know that the income of an agent of production depends upon the total national dividend as well as upon the principle that is followed in the distribution of such dividend. Different estimates of the National dividend have been prepared. The latest estimate is that given by Dr. V. K. R. V. Rao for the year 1931-32. According to him the National Dividend lies between Rs. 16,000 millions and Rs. 17,000 millions.

The principle of distribution is far from being equitable.

Like all other countries India has failed to apply the 'marginal productivity theory' in the distribution of its National Dividend. That there is great inequality of distribution is to be found in the existence of vast masses of poor and illiterate population. The whole population can be divided into three classes :—(1) the rich, (2) the middle class and (3) the poor. The first class contains a very small number of people who live in affluence and have all their material wants satisfied. The second class consists of men who are more favourably circumstanced than those belonging to lowest stratum but whose economic conditions are still far from being satisfactory. The third class consists of people who live miserable lives in a half-starving condition.

Custom plays an important part.

Another feature of the distribution of National Dividend in India is that custom plays a more predominant part than any principle of economic science. The amount of rent, wages, interest or profit is influenced greatly by the customs. The labourers will generally be satisfied if customary wages are paid to them and the convervatism of the people will despise any and every change in the share of any agent of production ; but such a customary rate of remuneration is not conducive to the economic development of a country. A change in circumstances necessitates a change in the amount of remuneration that is to be paid to each agent of production.

There is lack of organisation.

Another peculiar feature of distribution in India is the lack of organisation among the different agents. In every civilised country we find that every agent has its own organisation, the Capitalists' **organisation,** the Labourers' **union** and so on. In these days of economic warfare the importance of such an organisation can never be exaggera-

ted. It is because of such organisations that the condition of labourers is better in the western countries than in India. In recent times we find in India instances of such organisations among certain classes of labourers but trade unionism is still in its infancy here.

Sec. 2. Various Estimates of the Per capita Income.

The per capita income of India has been the matter of systematic investigation since the time of Dadabhai Naoraji who estimated the per capita income for British India to be Rs. 20 per annum. This income was scarcely sufficient to secure the bare necessaries of life, which, according to him, would involve an expenditure of Rs. 34 per annum. A more gloomy picture was drawn by Digby who estimated the income to be Rs. 18-8-11. Messrs. Wadia and Joshi arrived at a more hopeful figure. The per capita income according to them was Rs 44-4-6 in the year 1913-14. Findlay Shirras estimated the per capita income in 1921-22 to be Rs. 116. The recent estimate as given by Dr. Rao in 1942-43 fixes the per capita income at Rs. 114.

All these different estimates do not stand on scientific footing. A true picture has yet to be drawn, but the difficulty lies in getting satisfactory data for arriving at a true estimate. Again, the more hopeful estimate drawn by Dr. Rao does not reveal the true state of things in view of the tremendous rise in price level. Even this optimistic estimate points to the extreme poverty of the Indians and cannot compare favourably with the per capita income of Great Britain which stands at Rs. 95. According to authors of the Bombay Plan the per capita average income varies from Rs. 51 to Rs. 166 in rural and urban areas respectively.

Sec. 2(a). Scientific Methods according to Bowley—Robertson Report.

Two experts were invited by the Government of India to devise a scheme for re-organising the Statistical department of India. They submitted their report containing several recommendations. They suggested two different methods for estimating per capita income viz., (a) Census of Production Method and (b) Census of Income Method. The census of production method which according to the report, should be adopted in estimating rural incomes, should include the following items :—(i) Value of the net output of agriculture, mining, industry, (ii) Plus the value of transport services, (iii) Plus value of personal services, (iv) Plus value of total rent of dwelling houses, (v) Plus return from excise and custom duties, (vi) Plus net income from foreign investment of India, (vii) Value of agricultural produce which are consumed by the producer or exchanged by barter, (viii) Minus the

value of exports. The Census of Incomes Method consists of the following items :—(i) Value of all commodities produced and at the point of production together with value of receipts of all kinds (ii) plus the rental value of the houses occupied by the owners, (iii) plus all money incomes earned by persons either for services rendered or for investment of capital, (iv) plus profits of companies and of Government undertakings, (v) plus receipts from customs, excise, stamp and local rates, (vi) minus interests paid on loans whether for consumption or production, (vii) minus interest on unproductive Government loans, (viii) minus net pensions of ex-Government servants.

Sec. 3. What is Economic Rent ?

An economic rent is a differential return yielded by land of superior quality over the land that is just on the margin of cultivation. In this world we often find land that will, by virtue of its inherent qualities and advantageous situation, yield higher returns than other lands. When this land of superior quality is to be found in abundance there is no rent ; but as the population increases and the Law of Diminishing Return begins to operate recourse will soon be taken to land of the second quality and the land of the first quality which will then be cultivated much more intensively, will yield rent. This econmic rent is measured by the sum total of the surplus returns yielded by the previous doses applied to the land of the first quality over the return from the marginal dose invested on that land. The return yielded by the marginal dose on the intensive margin is equal to that yielded by the marginal dose on the extensive margin. The economic rent is therefore due to the scarcity in the supply of the land of the first quality as well as to the operation of the Law of Diminishing Return.

An economic rent is a differential return.

Seo. 4. What is the Character of Indian Rent.

The rent that is paid by the Indian tenants to their landlord or to the state does not represent the true economic rent. The amount of such rent is generally determined by the combined influence of three factors, *viz.* custom, competition and legislation. The landlord of the permanently settled areas scarcely exacts the whole of what remains after the tenant has been remunerated for the cost of production incurred by him. In the temporarily settled areas the State takes away only a certain percentage of the economic rent. Thus we find that the rent realised from the tenants is generally lower than the economic rent that is yielded by the land.

The factors that influence the amount of rent.

Custom

Although the pressure of population upon land and the operation of the Law of Diminishing Return have minimised the influence that custom used to exert in determining the amount of rent in former times yet we cannot altogether ignore its influence. The modern tenancy legislations have mainly been based upon customs. The conservative habit of the Indians will vehemently oppose the enhancement of rent even though such an enhancement may be just and equitable.

Competition.

The competition among the tenants to get more pieces of land for cultivation has the effect of increasing the amount of rent paid by them. The rent has, therefore increased in those parts where on account of density of population the competition is very keen. Such a competition may be conducive to the interest of the landlord but it affects prejudicially the material condition of the poor tanant.

Legislation.

The State has sometimes fixed the amount of rent that is to be paid by the tenants or by the landlords in the temporarily settled areas. The rent is generally fixed with reference to the economic rent yielded by the land and therefore varies according to the quality of the land assessed. This rent remains fixed for a period of time. In the permanently settled area the revenue that is to be paid to the State by landlords on behalf of the tenants remains fixed for all time to come. In those areas the landlords are responsible for paying the revenue to the state. They are allowed to realise rent from the tenants but restriction has been imposed upon the landlord's power of ejectment and enhancement of rent by tenancy legislation.

Sec. 5. The Ricardian Theory in relation of Assessment of Land revenue in India.

A statement of the Ricardian Theory of rent.

Ricardo defines rent as "that portion of the produce of the soil which is paid to the landlords for the use of the original and indestructible powers of the soil." According to him there are different grades of land and a cultivator generally begins with the first grade land and applies his labour and capital therein but the supply of such land is limited and there is also a limit to the investment of capital and labour on a particular piece of land. For these reasons the cultivator will be found to bring under cultivation the second grade land in order to make the best and the most profitable use of his labour and capital. As soon as the second grade land is brought under cultivation the first grade land begins to yield an econo-

mic rent which is measured by the differential return derived from the first grade land. This differential return represents, according to Ricardo, a surplus which remains to the cultivator after he has paid all the expenses of cultivation and has remunerated himself for his own productive effort. Economic rent is thus the last charge on the produce.

Let us now see how far the above doctrine of rent governs the assessment of land revenue in British India. The Government recognises the proprietary right of the people in the soil and remains satisfied with certain fixed amount of money which the proprietors must pay annually. The question is how far this revenue represents the true economic rent as conceived by Ricardo. Apart from the theoretical objections which have been urged against the Recardian theory, there are certain practical difficulties which make it impossible for an able financier to base the system of assessment of land revenue on the Ricardian doctrine. In the first place India is an old country and it is impossible to determine how much of the produce is due to the original and indestructible powers of the soil. Secondly, the so-called surplus which constitutes the economic rent according to Ricardo cannot be calculated accurately in view of the fact that the cultivating proprietor and the members of his family render certain services of which no account is kept. Thirdly, the Ricardian doctrine assumes that there is a full and free competition between the landlord and the tenants but this assumption does not hold good in an agricultural country like India where on account of the absence of alternative occupation people must procure land at any cost. The position has bocome worse because of the insatiable desire for making investment in land. All these circumstances account for an excessively heavy assessment of revenue. The revenue payable for the land has thus come to bear little or no connection with true economic rent and the assessment often exceeds the true surplus and infringes on income that is not unearned. Fourthly, the revenue payable for the use of land remains fixed for a period of time and is not refunded or excused even if it is proved to the entire satisfaction of the revenue authorities that the expected surplus has not been actually realised. Thus there is no guarantee that the assessment of land revenue will in no case trench upon that portion of the gross value which is not unearned.

Difficulties of basing the assessment on the Ricardian doctrine.

Sec. 6. Proprietary rights over the Land: whether vested in the State or in the Individual.

The question that now arises relates to the ownership of land.

Is the State the universal landlord ? Or is there private property in land ? It cannot be denied that the State has been taking certain share of the produce of the soil from the time of which we have historical record. Even under the Hindu and the Mahomedan rule this practice of taking certain share of the produce was in existence. Under the British rule system of revenue has changed in form but not in substance. The State never treated itself as an exclusive proprietor of the soil but on the contrary recognised certain rights (*e.g.*, rights of transfer and rights of exclusive possession) which were inconsistent with the idea of State ownership of land. Thus we find that ownership of land was never vested in the State and the British Government cannot claim any such right by virtue of succession. This view has also been endorsed in recent times by the Bengal Land Revenue Commission (1940).

The State never treated itself as the owner.

It has been often argued that in the rayatwari system of settlement which prevails in Bombay the State is the real owner inasmuch as it can take the land into its own possession when the occupant fails to pay the assessment. This penal provision however is not inconsistent with the idea of private property in land. Even in the case of the permanently settled estates we find that in the event of default the Government can put to the auction sale the defaulting estate. These restrictions which have been imposed in order to ensure prompt and regular payment of revenue convey nothing more than an idea that land has been hypothecated as security for the payment of revenue assessed on it. They do not in any way infringe the proprietary rights which the people can safely enjoy subject to the payment of a fixed quota to the State. The Taxation Enquiry Committee to which this question of State ownership was referred also expressed the same opinion regarding the ownership of the people. Nevertheless the proprietary right is not as absolute as the right enjoyed by the owners of land in England. The proprietary right of the landlords or of the ryots is always limited by the solemn right of the state to saddle the lands in respect of which such proprietary right is claimed with the first charge of revenue. Again, the landlords have their rights curtailed by a series of tenancy legislation passed at the intervention of the state and have to recognise certain permanent claims of the tenants which appear as clog upon their absolute power. Hence it has been said that the system of land tenure in India is based upon a theory which is a compromise between the English theory of absolute property in land on the one hand and the extreme theory of State ownership on the other hand.

Land is hypothecated as security for the payment of revenue.

Sec. 7. The Land revenue—whether a Tax or a Rent.

The question with which we are concerned in this section is as to the nature and character of the land revenue paid to the state. Is it a rent or a tax ? The answer to this question necessitates a discussion of the nature of the interest taken by the state in the land of the country. The rent can be realised only by the proprietor of the land. If the state assumes the position of a proprietor of all the available lands of the country it is entitled to the payment of economic rent. If on the other hand it recognises the private proprietorship of the people the revenue that is paid to the state will take the character of tax proper. In this latter case the state will be said to have imposed a tax upon the proprietors for the agricultural incomes that they enjoy.

No straight answer is possible.

The Government of India has always recognised the proprietary right of the people and has at the same time demanded the payment of certain amount of revenue to the State. The very recognition of the revenue demanded by the state is not a rent proper because rent can only be claimed if the state ratains the proprietary interest in the land. Again, it has been argued that the process of assessment and collection is similar to that in the case of a tax and that the old exemption of agricultural incomes from taxation is based upon an implicit admission that the revenue paid by the landlords is in essence a tax. The authorities also treat the land revenue as tax and had in the past referred the problem of assessment to the Taxation Enquiry Committee for necessary recommendation as to the ideal principle of assessment. All these arguments lead to the conclusion that the land revenue is nothing but a tax : but though this conclusion logically follows from the nature and character of interest taken by the state in the land of the country, it will be prudent not to make such a dogmatic statement in view of the fact that the land revenue has some reference to the economic rent of the land and cannot be altered according to the exigencies of the state during the long period for which it is fixed. In the permanently settled areas the revenue, on account of its fixity, has come to be only an insingnificant part of the true economic rent yielded by the land but in the temporary settled districts the revenue is assessed with reference to the economic rent of the land. Again, like rent payble to ordinary landlord the revenue payable to the state claims priority over other charges upon the land and a purchaser at a revenue sale like that at a rent sale gets the estate

Revenue paid to the Government is in essence a tax.

The view of Baden Powell

free from all encumbrances and charges. All these facts have led Baden Powell to say that land revenue is neither strictly a tax nor a rent but it partakes more of the nature of tax than of rent.

Sec. 8. The Incidence of revenue.

The incidence of revenue charges varies according to the nature of settlement, the class of tenure and the character and circumstances of the holding and is not the same everywhere. Under permanent settlement in Bengal, Government derives rather less than £3,000,000 from a total rental estimated at £12,000,000. Under temporary settlements the share of the Government varies from 50 per cent in the case of Zemindari land to 20 per cent, in the case of ryotwari land. The total land revenue derived by the Provincial Governments may be £28 million as compared with £84 million said to have been raised annually by Aurangzeb from much smaller empire.

When viewed with reference to the gross produce we find that the Government's share in the extreme case does not exceeed one-sixth of the entire gross produce. Again, the principle of assessment has often been adjusted with a view to reducing the incidence and in case of large enhancement imposition has been progressive and graduated. Remission, suspension and reduction of revenue have been allowed in time of scarcity and deterioration of soil.

Sec. 9. System of Land Revenue : How far sound and equitable.

Land Revenue system in every province is practically a system of taxation. It is interesting to study how far this system follows the classical principles of sound taxation. The first canon, namely, that of certainty has been fully applied and we find that the person who has to pay land revenue knows exactly what he has to pay and when he is to make payment. The next canon is the canon of convenience. This finds a rough application in the system of land revenue. It is no doubt true that provision has been made for the payment by instalments suitable to the assessee ; but the inherent rigidity and inelasticity of the system and the unscientific method of assessment have proved to be highly oppressive and inconvenient particularly in years of scarcity.

The next canon is that of economy. In spite of the official claim in favour of it we cannot ignore the heavy expenditure which the state has to incur in connection with the assessment and realisation of land revenue.

The canon of ability, we all know, is the most important canon and secures equity in taxation when its application is regulated by the doctrine of progression. The Taxation Enquiry Committee have

attempted to prove the progressive reduction in the share of the state with a view to convincing us that the tendency of the state has been towards reduction of the incidence of land revenue but the period which they have reviewed happens to be a period of rising prices and the heavy slump of agricultural prices which set in towards the end of 1929 does not support the view which they uphold so emphatically. Again, the doctrine of progression which has been adopted with success by Japan and the European countries in the assessment of agricultural incomes has been rejected by the Taxation Enquiry Committee on the ground that land revenue is essentially a tax on things and as such is not susceptible to direct application of the doctrine of progression. The system of land revenue does not also conform to natural justice because it does not exclude from assessment the uneconomic holding which does not yield any surplus.

The system has been marked by inter-provincial and even inter-districts disparities and has caused considerable inequalities in the burden of assessment. To avoid this defect the Taxation Enquiry Committee has recommended the adoption of a uniform standard of 25 per cent of the annual value as the share of the State.

Sec. 10. The Principal system of Land-tenure.

There are differnt kinds of land-tenure prevalent in British India. Broadly speaking Indian land revenue settlement may be classified under two heads, *viz.* :—(1) the Permanent Settlement which is in vogue in Bengal, Bihar and Orissa, in some parts of Madras, Ajmer-Merwar, Assam and Benares ; (2) the Temporary Settlement which again can be subdivided into three principal classes, *viz.* :—(*a*) Zemindary, (*b*) Ryotwari, (*c*) the Village system or the Mahalwari Settlement.

Two principal systems.

By permanent settlement we mean a system where the State has settled the revenue that is to be paid by the land-lords for all time to come. The temporary settlement on the other hand is a settlement of land revenue which holds good only for a period of time at the lapse of which it will be replaced by another fresh settlement. The temporary Zemindary settlement is prevalent in the Punjab and in some parts of Bengal : the Talukdars of Oudh are also called Zemindars under the temporary settlement. The Ryotwari settlement consists in a settlement made with the ryots themselves who are individually responsible for the payment of revenue to the State. It is in prevalence in Madras, Bombay and Berar and Central India.

Permanent Settlement.

The Ryotwary Settlement.

The Mahalwari Settlement consists in a settlement made with the village communities which serve as units of revenue management. The individual proprietors are severally and collectively responsible for the payment of the whole revenue. This type of Settlement is to be found in the Central Provinces, in the Punjab and in the United Provinces of Agra and Oudh.

The Mahalwari Settlement.

Sec. 11. Land Revenue System of Bengal. The system of revenue administration before the Permanent Settlement.

Before the introduction of Permanent Settlement in India, the East India Company who obtained the grant of the Dewani from Shah Alam, the titular emperor of Delhi, in 1765 used to carry on the administration of land revenue through collecting agencies. These collecting agencies used to oppress the poor tenants in all possible ways and the company had little or no control over them. In 1769 the Company appointed several supervisors to superintend the collection of revenue by their agents but such an official control failed to improve the system of revenue administration. The news of oppression to which the Indian tenants were put at last reached the ears of the Parliament and in 1772 the British Government took the administration of revenue in their own hands and with a view to securing better control over collection made a quinquennial settlement with the farmers offering the highest bid. This system of settlement was replaced by a system of annual settlement in 1777. These settlements had the effect of dispossessing most of Zemindars who began to protest against such a pernicious system. At length these matters attracted the notice of the Home authorities and Pitt's India Act was passed in 1784 ordering an inquiry to be made into the complaints of the dispossessed Zemindars. The Act also advised the Company to make systematic and permanent rules of collection of land revenue. The Court of Directors had the ingenuity of suggesting a novel system of decennial settlement to be made with the landholders. Lord Cornwallis came to India in 1786 and after making detailed enquiries into the prevailing system of revenue administration introduced the decennial settlement in 1790 the rules of which were incorporated with slight modification in the Regulation VIII of 1793. This settlement was made permanent by the proclamation of the 22nd March, 1793.

The system that was prevalent before 1793.

The permanent settlement was introduced by Lord Cornwallis in 1793.

Sec. 12. The Permanent Settlement.

In the preceding section we have dealt with the circumstances that led to the introduction of Permanent Settlement in India. Let us now discuss the changes that were introduced by such system in the revenue administration of Bengal. Formerly, the Zemindars were merely revenue farmers having no vested interest in the land under their charge. Consequently, they could neither alienate it nor raise money on the credit of their tenure. The amount of revenue that they had to pay was not fixed but was subject to variation at the discretion of the Government. This was the position of the Zemindars before the introduction of Permanent Settlement. The Regulation I of 1793 which introduced for the first time the permanent settlement in Bengal brought about a change in the status of the Zemindar. The Zemindars were given an absolute right of proprietorship in the soil subject however, to the payment of the revenue the amount of which was fixed for ever. The above regulation also provided that the land in the possession of the Zemindars would be heritable and transferable. The right of proprietorship which was conferred upon the Zemindars also included the rights of mining, fishing and other incorporeal rights. The Zemindars were given the right of collecting rents from the under tenants and of enhancing such rent subject to such rules and regulations as would be enacted by the Government for safe-guarding the interest of the tenants. Mr. Harrington described the position of the Zemindars under the Permanent Settlement thus :—"A land-holder possessing a Zemindari estate which is heritable and transferable by sale, gift or bequest, subject under all conditions to the public assessment fixed upon it, entitled after the payment of such assessment to appropriate any surplus rents and profits which may be lawfully receivable by him from the under-tenants in his Zemindary or from the cultivation of untenanted lands but subject nevertheless to such rules and restrictions as are already established or may be hereafter enacted by the British Government for securing the rights and privileges of raiyats and other under-tenants of whatever denominations, in their respective tenures and for protecting them against undue exactions or oppression."

What change the Permanent Settlement brought with it.

Sec. 13. Object of the Permanent Settlement.

One of the primary objects for the introduction of Permanent settlement was to improve the agricultural industry with which the prosperity of the country was intimately connected. The people of India were then mainly dependent upon agriculture but on account of the defective system of land tenures prevalent in those days they could not

improve the quality of the soil by the investment of labour and capital. The Zemindars did not take any interest in irrigating the land by the excavation of the reservoirs and other artificial works because they had no proprietary interest in the land and could be dispossessed at the expiration of the annual settlement. Under these circumstances famines began to visit the country frequently and misery of the people knew no bounds. The then Government of Bengal appreciated the seriousness of the situation and discovered to their surprise that the root-cause of all these evils was the defective system of revenue administration. They came to realise that all attempts to improve the condition of the people would prove a failure unless an improvement is effected in system of land-tenure by recognising the proprietary right of land-owners and by fixing the amount of revenue payable to the Government. Accordingly the Regulation I of 1793 was passed and the system of Permanent Settlement was introduced in Bengal.

The primary object was to improve the condition.

In addition to the above reason there were several others which led to the introduction of the Permanent Settlement. Let us have a brief summary of these reasons.

(1) The Government felt great difficulty in connection with the payment of heavy civil and military expenditure. They were in urgent need of adequate funds for that purpose. The financial condition of the Government could not be improved unless some reform was introduced into the system of land-revenue administration. The introduction of Permanent Settlement was regarded as the means of overcoming the financial difficulty. Mr. S. C. Mitter in his Tagore Law Lecture said that the East India Company would have been reduced to bankruptcy, if they had not adopted the principle of Permanent Settlement.

Government was then in a state of bankruptcy.

(2) The system was found helpful to the interest of the Government as well as beneficial to the interest of the people. It ensured a punctual realisation of a fixed amount of revenue to the Government and at the same time vested a permanent right of proprietorship in the Zemindars. The object of the Government was to confer upon the Zemindars the same status as was enjoyed by the English landlords so that the benefits enjoyed by the tenantry in England might be secured for the poor tenants of Bengal.

The system appeared to be beneficial.

(3) There was a political object too which we cannot overlook.

The Government thought that the introduction of permanent settlement would go to promote loyalty of the people. The big Zemindars would remain grateful for ever to the Government for the immense benefit that the Permanent Settlement would bring them.

A political object.

(4) The prosperity that would come out of the system of Permanent Settlement would, Lord Cornwallis hoped, increase the consumption of British goods and thereby would give a fillip to the British industries. The Government treasury might also be enriched by the payment of large sums of indirect taxes levied upon foreign commodities which the prosperous people of India might import from foreign countries.

Consumption of British goods.

Sec. 14. The Effect of the Permanent Settlement.

In this section we shall consider the effects of the Permanent Settlement upon the respective rights of the Government, the proprietors of the soil, the Talukdars and lastly of the cultivators.

(*a*) *On the Government* :—The Government made over its proprietary right to the Zemindars on the latter's agreement to pay a fixed sum of revenue annually but reserved the right of protecting the cultivators from the oppression of Zemindars. It also retained the right of assessment on all revenue-free lands held under invalid titles. The introduction of this system has meant a considerable sacrifice of revenue on the part of the Government. On account of the permanent fixity of the revenue the Government is not in a position to increase the revenue with every rise in the price of the products of the soil ; but this loss has been compensated by the benefit that follows from the punctual realisation of fixed amount of revenue and from the avoidance of all costs incidental to a temporary settlement.

The Government abdicated its proprietary right.

(*b*) *On the Proprietors or Zemindars* :—The Permanent Settlement has been aptly described as the Magna Charta of the landed aristocracy of Bengal and Bihar. It has recognised the proprietary right of the Zemindars and has conferred upon them the right of alienation by way of sale, gift or bequest. The revenue that they have to pay annually to the state has been fixed for all time to come. They can sublet the land they own to the cultivators on terms to be determined by mutual agreement but the Government has retained the right of making tenancy laws for

The P. S. has been described as a Magna Charta.

safeguarding the interest of the poor tenants. The Rent Act of 1899 and the Bengal Tenancy Act of 1885 as amended by the Act of 1938 are instances of such laws.

The settlement was made with the independent Talukdars.

(c) *On the Talukdars* :—During the time when the Permanent Settlement was introduced into Bengal there were two types of Talukdars, viz. :—(1) the independent Talukdars, (2) the dependent Talukdars. The former viz., the independent Talukdars were given by the Permanent Settlement the same rights and privileges as were conferred upon the Zemindars while the dependent Talukdars were reduced to the position of mere tenants.

The helpless position of the cultivators.

(d) *On the Cultivators* :—The cultivators of the soils were not given any proprietary interest in the land they cultivated. They were made the tenants of the Zemindars who could realise from them any rent they chose, but the cultivators were not left absolutely to the mercy of the Zemindars. The Government reserved the right of making laws to regulate the relation between the cultivators and the Zemindars and incorporated in Regvlation VIII of 1793 several provisions for the delivery of *Pattas* or leases and for the maintenance of the account of the raiyats by the Kanongoes or the village Patwaris. The object of all these provisions was to safeguard the interest of the tenants against the oppression of the Zemindars but all those provisions could not assure the cultivators of permanency in the possession of their holdings. For this reason the Government had to make tenancy laws in order to protect these helpless tenants.

Sec. 15. Profits of Permanent Settlement.

Increased the resisting power of the people.

(1) The introduction of Permanent Settlement in Bengal has materially improved the economic conditions of the people of this province. The amount of revenue payable to the Government does not increase with every rise in the price of the crops and in consequence, the agricultural incomes are higher in Bengal than in the temporary settled districts. This comparative advantage in agriculture has increased the resisting power of the people against famines which, since the introduction of Permanent Settlement, have been rare in Bengal. Bishop Heber says that "in Bengal where independent of its exuberent fertility there is a Permanent Settlement famine is unknown."

(2) The Permanent Settlement has freed the Zemindars from official control and put a stop to the oppression to which the cultivators were formerly subject when the collection of revenue was in the hands of collecting agents.

(3) It has avoided the expense and harrassment incidental to the temporary assessment of revenue. Often such assessment is found to be unjust and inequitable.

(4) The temporary nature of the tenure is a great check upon the investment of labour and capital in land. The Permanent Settlement on the other hand encourages the cultivators to invest as much capital as they can in the soil.

(5) The Permanent Settlement has been a Magna Charta to the landlords of Bengal. It has recognised the proprietary rights of the landlords and has thereby given rise to a landed aristocracy in Bengal. These rich people can afford to do good to the community by improving the sanitary condition of the village and making proper arrangement for the elementary education of the village.

A Magna Charta of the landlords.

(6) This landed aristocracy will come into intimate touch with the tenants who hold land on certain conditions and is expected to look much more to their interest than an apathetic Government.

Sec. 16. The Defects of Permanent Settlement.

(1) One of the most important defects of the Permanent Settlement lay in the fact that it did not recognise the rights of the raiyats but left them absolutely to the mercy of the landlords. The Zemindars could make any and every settlement with them. There was neither a detailed survey nor the preparation of record of rights. The Government only reserved the right of making tenancy laws for safe-guarding the interests of the poor tenants.

The right of the tenants.

(2) The Permanent Settlement has fixed the revenue payable to the Government for all time to come. This involves a sacrifice of all prospective increase of revenue on the part of the Government. Lord Cornwallis seemed to have thought that there could not be any security of the title to the estate unless the revenue payable to the Government was fixed. Whatever might be the reason for the introduction of this system it cannot be gainsaid that from the standpoint of revenue the policy is unsound in principle.

It involves a sacrifice of revenue.

It is responsible for industrial backwardness.

(3) The comparative advantages that the people of Bengal enjoy on account of the introduction of Permanent Settlement have been the cause of their industrial backwardness. The temporary settled areas like Bombay have flourished in the sphere of industry while in Bengal the industries have made little or no progress.

The Zemindar's prosperity has not been a blessing.

(4) The Permanent Settlement has no doubt increased the prosperity of the Zemindars but this increased prosperity has not proved a blessing to the country. The Zemindars generally spend their riches for the satisfaction of their personal wants, and do not even think of improving the conditions of the villages from which they derive their income. The tenants are not cordially dealt with. They are harassed and illtreated in every possible way.

(5) The Permanent Settlement has not led to the creation of intelligent and loyal citizens. The Zemindars have indepedent resources to depend upon and are generally found to be men of public spirit. They do not like to support the Government and oppose all measures which are detrimental to the interests of the country.

Sec. 17. The Permanent Settlement areas.

Areas under the permanent settlement.

Bengal is not the only province where the system of Permanent Settlement is in vogue. There are other parts of India where this system is in prevalence. Some parts of Bihar and Orissa and of the Madras Presidency are under this system of land-tenure. This system has also been introduced in some parts of Assam, in Benares and in Ajmer-Marwar. All these parts taken together represent near about one-third of the total area of British India.

Sec. 18. Should Permanent Settlement be retained in Bengal? Land Revenue Commission (1938-40).

In recent times the evils of permanent settlement have been exaggerated and the poverty of the rayots has been attributed to the permanent settlement in Bengal. The Government of Bengal appointed a Commission, under the Chairmanship of Sir Francis Floud to examine the land system of Bengal and to submit its report. The Report was published in 1940. The majority of the Commission concluded that the reversal of the permanent settlement was urgently needed and proposed a scheme of acquisition of all estates and tenures on payment of suitable compensation to the parties affected. Such compensation might be fixed at 10, 12 or 15 times the net profit, which-ever the Government

might choose to prescribe. When the compensation has been fixed it may be paid either in cash, if possible or bonds bearing 4 per cent interest and redeemable in 60 years. If the Report of the Commission finds acceptance the Zemindars and the intermediate tenure-holders will be eliminated and the actual tillers of the soil will come to hold land under the Government. Such a direct relationship will enable the Government to revise rent according to equitable principle and to initiate schemes for permanent improvement in agriculture.

The report also recommends the imposition of agricultural income tax if the immediate acquisition by the state is not possible for financial or other reasons.

The report did not win the approval of all the Commissioners six of whom signed four minutes of dissent. They argued that the scheme of State acquisition would be a hazardous experiment from the financial point of view and disorganise the social and economic structure of the Province.

The above scheme has also been attacked on the following grounds :—(i) It will create unemployment among the middle-class people who have invested their humble savings in land and depend absolutely on the fruits of such investment. (ii) It will weaken the economic position of the Zemindars whose life-long contribution to the educational and charitable institutions have brought immense benefit to the people. If the Government acquires the estates of the Zemindars these institution will surely cease to exist unless the Government undertakes to maintain them. (iii) The compensation proposed in the scheme will fail to guarantee the existing income of the Zemindars and they will thus be deprived of their vested interest without adequate compensation for the loss sustained by them. (iv) Poverty of the people cannot be attributed to the system of land tenure. Their miserable lot has been the resultant of a number of causes the most prominent of which are the increasing pressure of population, the sub-division and fragmentation of holding, absence of supplementary income and the fall of agricultural price. A change in the Land Revenue System will afford no relief to the people. Again, the ryots in the Khas-mahal areas are in no sense better off than the ryots under the private proprietors.

The Report gave rise to huge controversy in Bengal and the Government had to appoint one expert to report upon it.

It should be noted in this connection that the Government of India Act, 1935 does not preclude any scheme for the reversal of permanent settlement but only imposes greater precaution by requiring reservation of any such bill for the signification of His Majesty's pleasure.

Sec. 19. The Land-Revenue System of Bombay.

The ryotwary settlement is prevalent in Bombay. This system was introduced at first in the Inderpur district of Bombay on the basis of the reports submitted by Mr. Goldsmid and Lieutenant Wingate. As this system proved successful in that district, it was later on extended to other parts of Bombay. This settlement is made periodically with the tenants themselves who are responsible for the payment of revenue to the Government. The Bombay Land-Revenue Code (Amendment) Act, 1939 lays down three main steps in the process of fixing assessment. The first step is dividing the lands in a taluka into homogeneous groups. Classification of soils and their relative values are determined with reference to their depth, capacity for retaining moisture and other physical properties. The second step is the determination of standard rate for each group in such a way that the aggregate revenue demand does not exceed 35 per cent of the average rental value of lands of the group for a period of five years immediately preceding the year in which the settlement is directed. The third step is the determination of the revenue liability from aggregate to detail regarding the land revenue assessment of individual survey numbers and sub-divisions.

The state of Ryotwary Settlement.

Every settlement generally holds good for 30 years and the revenue remains fixed for this period of time. After the lapse of this period of settlement, a re-settlement is made and during the time of this re-settlement the revenue can be enhanced. The rate of enhancement is limited to 25 per cent of the total for a whole *taluka*, 50 per cent on that of the village and Survey number or sub-division.

Settlement generally holds good for 30 years.

The land tenures of Bombay may be classified under three groups :— (*a*) the Survey tenure, (*b*) the Inam tenure, (*c*) Miscellaneous tenures. The first class, *viz.*, the Survey tenure includes both the unrestricted tenures and restricted tenures. The unrestricted tenures mean tenures which do not impose any restriction on the right of alienation whereas the restricted tenures impose such restriction.

Classification of tenures.

The Inam tenure again may be sub-divided into four classes :—(*a*) the Political, (*b*) the Religious, (*c*) Personal, (*d*) Service.

Sec. 20. The Land-Revenue System of the Punjab.

The land-revenue system of the Punjab is known technically as the Mahalwari system. The characteristic of this system lies in the fact that the settlement is made not with the individual tenants but with a village community. Each individual-holder of the lands of the village has to contribute his quota

Mahalwari system.

to the village headman who ultimately pays the whole revenue payable to the Government. The whole village is divided into a large number of holdings and a certain fixed amount of revenue is to be paid by the occupant of each of these holdings. The rate of revenue per acre is fixed with the reference to the rental assets of each kind of soil. The occupants of these holdings are jointly and severally responsible for the payment of the whole sum due to the Government. Sometimes the whole land is not divided into a number of separate holdings. The proprietary interest of an individual is then represented by a certain specified share in the village. The tenure is technically known as the *Pattedari*. There are few other kinds of minor tenures which are left out of discussion. Under the Punjab Land Revenue Amendment Act of 1929 the share of the State has been fixed at one-fourth of the net assets and the period of Settlement is 40 years.

Revenue is paid through the village headman.

Sec. 21. The Land-Revenue System of Madras.

The system is technically known as the Raiyatwari system. The settlement is made with the individual tenants who are ultimately responsible for the payment of revenue. The whole of Madras is not, however, under this system of land tenure. There are certain parts of this province where permanent settlement is in vogue. The assessment of revenue is made every 30 years and the principle on which it is based is sound. The settlement officer takes into account the productive capacity of the land and the revenue is fixed with reference to the net produce valued on the basis of the average price of crops in 20 non-famine years preceding the enhancement of revenue. The assessment is also influenced by the facilities for irrgation and by situation ; a separate assessment is made on minerals when discovered.

Raiyatwari system of Madras.

Sec. 22. The Land-Revenue System of the United Provinces.

Notwithstanding all hopes that were held out to these provinces by the Regulation of 1793 regarding the introduction of Permanent Settlement, the Court of Directors finally decided in 1822 to introduce temporary settlement into these provinces and fixed the amount of revenue at 83 per cent of the gross rental of land. The rigorous settlement had its worst effect upon the material condition of the people and Government had to lower its demand to 66 per cent of the rental in 1833. Then came the Saharnpur Rule of 1855 which reduced the revenue of the State to 50 per cent of the net produce of the soil.

Saharanpur rule.

The system of land revenue prevalent in the United Provinces is techinically known as the Mahalwari system. The settlement is made with the village community and the individual tenants are jointly and severally responsible for the payment of the whole revenue to the Government. In assessing revenue the Settlement officer has to group the villages into assessment circles having rough similarity in respect of soils and physical character. The actual cash rental paid by permanent tenants of the soil is taken into account and the state demand is fixed with reference to this cash rental and several other factors such as means of communication, increase of population and area under cultivation. It should be noted, however, that this system does not prevail in Oudh. The Government could not ignore the rights of the Talukdars and consequently a settlement was made with them. The Talukdars are entitled to sub-let the land in their possession to tenants on any terms chosen by them. The Government undertook to protect the interest of these tenants and regulated the relation between the Talukdars and their tenants by passing the Oudh Rent Act of 1861.

The system is known as Mahalwari.

Sec. 23. The Land-Revenue System of the Central Provinces.

The system of settlement prevalent in the central provinces is known technically as the Malguzari Settlement. This settlement is made with the revenue farmers for a period of 30 years. The cultivators are tenants under the Malguzars but they have not been left to their mercy. The Settlement officer has to fix the revenue payable by the Malguzars as also the rent payable by the cultivators to the Malguzars. The Tenancy Act of 1883 has conferred upon the tenants the absolute right of transferring the land in their possession and of enjoying it for a certain period without the enhancement of rent. The period of settlement has been reduced to 20 years and the rate of assessment has been raised.

Malguzari Settlement. The Act of 1883.

Sec. 24. The Land Revenue System in Assam.

In Assam permanent settlement is in vogue in parts which formerly were included in Bengal. Permanent cultivators who occupied land for ten years prior to the Regulation of 1886 or held land under a lease for ten years after the Regulation were also recognised as permanent proprietors.

Besides these permanent proprietors there are temporary holders who hold land under an annual lease or a lease for less than ten years.

There are tea gardens which are held under a long-term lease at specially low rates of interest. On the expiry of such lease land is liable to fresh assessment with reference to assessment of land cultivated with ordinary crop.

Sec. 25. The Arguments For and Against the Reversal of the Permanent Settlement.

(1) Enjoyment of unearned increment.

(2) Social and political objects not fulfilled.

(3) Industrial progress hampered.

Arguments are not wanting in favour of the reversal of the Permanent Settlement. The people of the districts where this system is in prevalence are enjoying an unearned increment to the extent of 1600 lakhs of rupees while the revenue of the Government remains fixed for ever. Again, the social and the political objects which led to the introduction of the Permanent settlement have not been fulfilled. The Zemindars are neither loyal to the Government nor do they treat the tenants with kindness and sympathy. The economic progress of the Permanent Settled areas is being hampered on account of the absolute dependence on agriculture. All these considerations lead to the question of replacing the system of Permanent Settlement by one of temporary settlement; but there are arguments that can be advanced against the reversal of the system.

The most important of these arguments is that such a reversal will mean a breach of solemn pledge of the Government. The Government introduced this system and promised to make this system permanent. How can the Government abolish this system without being guilty of a breach of promise?

Secondly, the reversal of this system will have the effect of taking away the right of property which has once been recognised by the Government. Thirdly, it will deprive the people of the fruits of investment. The limitation and permanent fixity of the Government revenue have led to the investment of labour and capital in land and now if the system is reversed and the revenue is assessed with reference to the productivity of the land Government will thereby take away the return of this investment without giving any compensation to the people.

Fourthly, the replacement of Permanent Settlement by a system of Temporary Settlement will lead to a reduction in the value of land with the result that the proprietors who have purchased lands at exorbitant price will incur a heavy loss. Again, experience tells us that the Khas Mahal system is much more oppressive than the Zemindary system.

Sec. 26. Some Terms defined.

(1) *Estate* :—There are lands of various descriptions. Some are known as revenue-paying lands while others as revenue-free lands. Besides these two types, there are Khas Mahals. The collectors of every district have to prepare and maintain registers of each of these kinds of lands. An estate means so much of any of these lands as are included under one entry in one of these registers. Independent Taluks that pay revenue direct to the Government are also termed as Estates but the subordinate Taluks such as Shikimi Taluks and Patni are not estates.

The Govt. keeps registers of estates.

(2) *Khas Mahal* :—When the Government is the proprietor of an estate, the estate is technically termed as Khas Mahal. Such proprietorship of the Government is to be found in the case of waste land or an island in the midst of a navigable river. Again, where the proprietor of an estate is not ready to accept the term of settlement the estate is held *khas* by the Government. These *khas* possessions are sometimes managed by the Government through its servants and sometimes let out in farm.

When the Government is the proprietor.

(3) *Tenant* :—Tenant means a persons who holds lands under another person and is liable to pay rent for that land to the latter. It is this liability to pay rent that estabishes the relation of landlord and tenant.

A tenant may be either a tenure-holder, raiyat or an under-raiyat. A tenure-holder denotes primarily a person who has acquired from a proprietor or a superior tenure-holder lands for the purpose of collecting rents or for bringing it under cultivation by establishing tenants on it and includes person claiming under succession to the tenure-holder.

Different classes of tenants.

A *Raiyat* means a person who has acquired from the proprietor or under-holder the right to hold land for the purpose of cultivating it by his own-self or by the members of his family or by labourers hired for the purpose and includes the successor of the original raiyat.

An *under Raiyat* is a person who holds land under a raiyat irrespective of the purpose for which the land is held.

(4) *Occupancy raiyats* :—An occupancy raiyat is a raiyat who has the privilege of continuing to hold the land in which a right of occupancy has been acquired by him either by virtue of an enactment or otherwise, as long as the rent legally demandable is paid. Several

enactments of Bengal have conferred upon the raiyat the right of occupancy. As for example, the Act X of 1850 and Act VIII of 1869 provided as follows : "Every raiyat who shall have culivated or held for a period of 12 years shall have a right of occupancy in land so cultivated or held whether it was held under a *pattah* or not so long as he pays the rent payable on account of the same." According to the Bengal Tenancy Act of 1885 a person who becomes the settled raiyat of a village has a right of occupancy in every piece of land that he holds "for agricultural and horticultural purposes.

Occupancy right how acquired under the Act of 1869 and that of 1885.

The rent of an occupancy holder can be raised either by registered contract or by suit. In the former case the rate of enhancement cannot exceed 2 *as.* in the rupee and the rent once enhanced cannot be enhanced again within 15 years. In the latter case enhancement can be made under the following condition—(1) The rise in prices. (2) The prevailing rate being higher. (3) Fluvial action causing improvement.

(5) *The Patni Taluks* :—The word Patni means what is settled in perpetuity at a fixed rent. Such Taluks came into existence immediately after the Government abdicated its position as an exclusive proprietor of the soil by the introduction of permanent settlement in Bengal. The Zemindars according to the above settlement were under obligation to pay a fixed amount of revenue annually to the Government. They, therefore in order to avoid the risk of non-payment began to lease out their Zemindary to tenure-holders in perpetuity at a fixed rate of rent. This practice of leasing out land led to the existence of the Patni tenures. Such tenures imply a hereditary and transferable interest in land subject to Regulation VIII of1819 for arrears of rent. A Patni taluk is not liable to be cancelled on account of non-payment of rent but it will, for such default, be brought to sale by a public auction and the defaulting Patnidar will be entitled to any surplus proceeds beyond the arrears of rent due thereupon.

Characteristic of Patni-taluks.

(6) *Lakhraj Lands* :—Lakhraj means revenue-free grants. These grants are of two kinds :—(1) Badshahi and (ii) non-Badshahi. The former includes grants made by the Sovereigns for the maintenance of pious men or of religious and charitable institutions. These Badshahi grants again are of various kinds, viz :—Jaigirs or grants continued so long as the grantee performed his duties while there were others which were life grants, (ii) Nazarat or grants for

Badshahi and non-Badshahi grants.

the support of Masjids, (iii) Aima and Madadmash which mean grants for the support of the learned and religious Mahomedans, (iv) Altamga or royal free gift. The East India Company recognised the validity of all Badshahi grants made previous to the 12th August, 1765 by the Regulation 37 of 1793.

Non-Badshahi lakhraj.

The non-Badshahi Lakhraj includes grants that were made to the Zemindars and Officers of the Government appointed to supervise the collection of revenue. The Regulation 19 of 1793 provided that such grants made prior to the 12th August, 1765 would be regarded as valid if the grantees had got possession and the land had not been subsequently charged with revenue, but with regard to grants made after the 12th August, 1765 but before the 1st December, 1790, the Regulation of 1793 was not ready to recognise their validity unless the grants had been made or notified by the Government.

(6) (*a*) *Wakf Lands* mean and include those lands which have been permanently dedicated by a person professing the Mussalman faith for any religious, pious or charitable purpose.

It means miscellaneous items of taxation.

(7) *Abwab* :—It is the plural form of 'bab' which means head or an item. Abwab, therefore, means miscellaneous items of taxation. The Mogul rulers used to levy such additional taxes in a fixed proportion to the orginal *jama* or revenue whenever they required additional money to meet their expenses. Let us have a brief summary of some of these abawbs :—The Chauth Marhatta was an abwab imposed upon the Zemindars in order that the emperor might be in a position to pay a tribute of one-fourth of the jama to the Marhattas ; abwab Radhahi was a tax imposed for the repairs of the roads ; abwab Faujdari was a fee for the support of the Police Magistrates and the administration of criminal justice. These abwabs were imposed upon the Zemindars at the first instance but ultimately the incidence of this taxation was borne by the poor raiyats.

The process of annual revision.

(8) *Jamabandi* :—'Jamanbandi' means annual settlement which has to be made with the tenants under the raiyatwari system. Under such a system the tenants have right to relinquish certain parts of their holding while retaining the other parts. This necessitates a revision of the Pattas that the tenants hold and a determination of the amount of rent that is to be paid by the tenants. This process of annually revising the Pattas and determining the amount of revenue payable to the Government is technically known as Jamabandi.

(9) *Record of Rights* :—We find such an expression when we

study the procedure that is adopted in settling the amount of revenue payable by each holding. The first stage of settlement consists in framing a survey-map of each separate holding or estate. At the same time a record of rights is prepared wherein is embodied an account of all rents paid and of the respective rights of landlords and tenants over the fields, and of buildings, trees and wells that exist in the area included in the map. At least three copies of such records of rights are to be prepared. One of such copies is given to the proprietor, the second copy is kept in the District Court House and third one is peserved in the Tashil House of the Subdivision. The importance of such a record of rights lies in the fact that it makes the process of re-assessment easier and cheaper. Again, when any dispute arises with regard to the proprietorship of a particular piece of land, the dispute can be easily settled with reference to this record of rights.

How records of rights are framed.

(10) *Talukdars* :—Talukdars are persons who hold taluks. Now what is a Taluk? The term is derived from an Arabic word '*alak*' which means dependence. Taluks are of two different kinds :—(i) Independent taluks and (ii) Dependent taluks. The former include those which pay revenue direct to the Government and are analogous to the Zemindari estate. The independent existence of these taluks was recognised when the Permanent Settlement was introduced into Bengal in 1793. These latter kind of taluks, viz., the dependent taluks do not pay revenue except through a Zemindar or other proprietor of the estate. These taluks therefore cannot be properly designated as estates in the true sense of the term. They are merely tenures.

Two different kinds of Taluks.

(11) *Cadastral Survey* :—Before the assessment of revenue has been made the Settlement Officer must have a map prepared wherein every holding or estate within its boundaries is incorporated. This map is the outcome of a general survey and contains not only each separate holding but also buildings, wells trees that exist therein. After this map has been prepared a copy of it is sent to the proprietor of the estate and other copies are placed in the District Office as well as in the Subdivisional Office. This map renders great service to the community and is frequently referred to by the Civil Courts when boundary disputes crop up before them. A record of rights is also prepared showing the rights of various persons interested in the lands.

A survey during the assessment of revenue.

(12) *Utbandi Tenures* :—These are customary tenures; the rent is paid every year with reference to the amount of land cultivated and

the nature of the crops produced. This is a method of letting out land every year and the amount of land cultivated one year is not necessarily the same as that cultivated in the following year. The Bengal Tenancy Act does not permit the acquisition of occupancy right in this tenure except by holding the land continuously for twelve years.

Permanency and fixity of rent.

(13) *Makarari Tenure* :—The term 'makarari' is used with the term 'mourasi' and these two terms together carry the sense of a permanent hereditary tenure at a fixed rent. These tenures are heritable and in the absence of heirs escheat to the Crown. These tenures have certain peculiar characteristics which distinguish them from similar other tenures. They can under certain conditions be subject to imposition of abwabs and other illegal cesses but the rate of interest chargeable on arrears of rent cannot exceed $6\frac{1}{4}$ per cent.

Sec. 27. The Process of Settlement. The Principle of Settlement in Raiystwari areas.

A separate principle.

By Settlement we mean the fixing of revenue by the State. If we study the ancient history of India we will find that the kings of India used to take away a share of the gross produce of the soil as a remuneration for the services that they rendered to the community. But the British rule in India enunciates a quite separate principle in justification of the revenue that it demands from the people. It starts with the idea of state-ownership of all soils of the country and demands as of right a certain amount of revenue partly for recognising private property in soil and partly for the exhaustion effected by use.

The right to assess follows from state-ownership of all lands

The method of assessment is not uniform. The basic principle differs from province to province. In Madras and Burma the net-produce is taken as the basis of assessment while in the United Provinces, the Punjab and the Central Provinces the assessment proceeds on the basis of economic rent. In Bombay the rental value in recent times forms the basis of assessment. This latter principle based as it is upon imperfect and unreliable statistics often leads to over-assessment and must be adopted with caution. Even when great precaution has been taken in the matter of preparation of rental statistics their indications should be verified with particular reference to other factors which influence the value of land. The Taxation Enquiry Committee also recommended that the assessment should be based upon the annual value which according to them means gross produce less cost of production including

the value of the labour actually expended by the farmer and his family, and the return for enterprise. As to the rate of assessment the Committee recommended that the rate should not exceed 25 per cent of the annual value. Again, the present method is more scientific inasmuch as regular maps and records are prepared and preserved and re-assessment of revenue can be easily and conveniently made. The temporary settlement remains in force for a period of time varying from 20 to 30 years and the revenue remains unaltered till the expiry of the term. On the expiration of the term of settlement the question of re-assessment comes in and the revenue can be enhanced on one or other of the following causes :—(1) rise in price of staple crops, (2) increased productivity of the soil due to the improvements effected by the State, (3) increase in area of land under cultivation. This enhancement, again should not be too sharp and should not in any case exceed 25 per cent as recommended by the Bombay Land Revenue Assessment Committee.

The controversy with regard to the period of settlement deserves attention. It is often argued that the period of settlement should be short enough to enable the state to revise assessment and thus take away any un-earned increment which the general progress might bring. As against this argument it may be pointed out that a short term leads to frequency of settlement, involves unnecessary expenses, kills enterprise and discourages investment of capital for improving the productivity of land.

In permanent settled districts the settlement has been made with the Zemindars and other actual proprietors of the soil and the revenue has been fixed for ever. In temporary settled areas the settlement may be made with the Zemindars and assessment which is based on the ascertained rent remains unaltered for the terms of settlement. In raiyatwari areas settlement is made with the raiyats individually for each separate holding and the revenue payable varies with the extension of cultivation.

Sec. 28. Advantages and Disadvantages of P. S. as Compared with those of Raiyatwari Settlement.

We shall deal with the question from the standpoint of the State as well as the people with whom settlement has been made.

The payment of revenue was made certain and regular.

(i) *On the State* :—(1) The introduction of Permanent Settlement had made the payment of revenue more certain and regular. The East India Company had to suffer a great deal on account of the uncertainty and irregularity associated with the collection of revenue. The expenditure of the government could not be adequately adjusted to the income derived from various sources of revenue.

Again, the increase in expenditure of the State aggravated the situation and impressed upon the Government the necessity of fixed sources of revenue. It has been said by Mr. S. C. Mitra that the Company would have been reduced to the position of a bankrupt had not the land-revenue been fixed at the time. The introduction of Permanent Settlement was therefore a matter of necessity.

(2) The State has also been benefitted because it has not to bear the incidental expenses of settlement every time the terms of settlement expire.

(3) The regular payment of revenue has been secured by the provisions made for the sale of the estate if the revenue remains unpaid after the last day of payment.

The disadvantages of raiyatwari settlement.

In the Raiyatwari settled areas the State cannot derive the advantages mentioned above; the State has to incur heavy expenses in connection with the settlement of revenues and in spite of its utmost efforts the State is deprived of its legitimate share on account of the inherent tendency among people to influence the officers by bribery and other unfair means and thus to have a lower rate of revenue fixed.

Government gains under raiyatwari settlement.

The Raiyatwari Settlement, however, has one important advantage over Permanent Settlement. This is due to the fact that the settlement is for a temporary period and gives the State an opportunity for enhancing the revenue whenever the circumstances are such as to permit enhancement. Thus the Raiyatwari settlement is productive of higher revenue to the State while the Permanent Settlement involves a sacrifice of future revenue by the State.

The right conferred upon the people.

(ii) *On the People* :—The introduction of Permanent settlement originated from the economic motive. It was introduced not solely for the purpose of securing a fixed revenue to the State but it had for its object the extension of cultivation and the improvement in the method of production by the investment of sufficient quantity of labour and capital. The Zemindars and other actual proprietors with whom permanent settlement has been made, have been given the free right of alienation by sale, gift or otherwise subject however to the payment of fixed amount of revenue annually. The State has abdicated its position as a proprietor of the soil and remains satisfied with an amount of revenue that remains fixed for all time to come. This fixity of the State demands makes it possible for the proprietors to enjoy the fruits of their investment.

Moreover, the Permanent Settlement has, by fixing revenue for ever, made the people free from vexation due to the constant settlement of revenue. The cultivation of land is not neglected with a view to inducing the Settlement-officers to believe that the land is less productive and deserves an assessment on that basis.

People are free from constant vexation.

The Permanent Settlement however did not make any distinct provision whereby the interest of the tenants could be adequately protected. The Government anticipated the evil that might come out of the system and reserved to itself the right of making tenancy laws to regulate the relationship between landlords and tenants. Before such tenancy laws were passed the Zemindars availed themselves of the opportunity of oppressing their tenants in every possible manner. In the Raiyatwari systems the raiyats are directly under the State which is their immediate landlord and hence there is little chance of oppression. But the Raiyatwari system has been responsible for certain other evils. The raiyats cannot enjoy the fruits of their own labour and capital and the increase in productivity is often followed by an enhancement of revenue payable to the State. This usurpation on the part of the State has the effect of discouraging investment of labour and capital in land and the economic condition of the people has been anything but satisfactory.

The tenants were left unprotected.

How the raiyats are loser under the raiyatwari system.

The raiyats under the raiyatwari system are not in a very happy condition; though it is expected that they should be favourably dealt with when the State itself is their landlord yet they have been the victims of serious oppression. The assessment of revenue has been made to depend upon the arbitrary decisions of the Settlement-officer and there is no definite principle to govern the enhancement of revenue.

Miserable condition of the raiyats.

Sec. 29. Rent is a British Creation.

The rent that is paid by the tenants to their landlords cannot strictly represent the economic rent inasmuch as it does not cover the whole surplus which issues from a differential advantage. This conception of rent cannot be found in the ancient text books of India although the germ of rent was not altogether absent in the village communities of the Hindus. The rent of ancient India was mainly governed by custom and there was little or no element of competition therein. The true competitive rent came into existence only during the British period. The policy of the British Government

The conception of rent as found in ancient text books.

has been from the very beginning directed to the creation of rent-receivers. These rent-receivers have been authorised to enhance the rent payable to them with certain limitation. We cannot however say that the rent in India is influenced solely by competition and that there is no limit to the enhancement of rent. In fact the rent that prevails in Bengal today is the resultant of several contending forces such as custom, competition and legislation. The Government has intervened and restricted the free play of competition with a view to protecting the interest of the tenants. In this connection it will be interesting to note the observation of Rent-commissioners which runs as follows—"Rent can only be settled by custom, competition or by law ; and inasmuch as on account of the State laws, custom had not settled rent and insmuch as the ruling power has a right to determine the rent payable by the raiyat to the Zemindar, the Government ought to determine what share of the produce would be fair for the former to recover from the latter."

Sec. 30. The Tenancy Legislation.

To protect the poor and helpless peasants from the oppression of their landlords every Government has to make certain laws. The Government of India has been forced to follow the same course and we find today a series of tenancy laws regulating the relationship between landlords and tenants. In the present section we shall have a brief outline of the various tenancy laws that have been passed in India.

The Rent Act of 1859.

In Bengal the Government in exercise of the solemn right that it reserved to itself at the time of Permanent settlement passed for the first time the Rent Act of 1859 ; but the Act failed to improve the condition of the tenant very much because it did not provide for any means whereby the tenants could enforce their right of occupancy as against their landlord ; the necessity for the protection of the tenants by legislation remained as keen as ever and ultimately led to the enactment of Bengal Tenancy Act of 1885. This Act has divided the tenants into five principal groups, viz.—(1) Permanent Tenure holders, (2) Raiyats at a fixed rate, (3) Occupancy raiyats, (4) Non-occupancy raiyats and (5) Under-raiyats. The Act has laid down the respective rules of ejectment and of enhancement of rent. The tenants can be ejected only under certain conditions and the landlord's right of enhancing rent has been strictly restricted. The Act prescribes the manner in which occupancy right can be acquired by the tenants. Such tenants cannot be ejected for non-payment of rent but their

The Bengal Tenancy Act of 1885.

holding can be sold out for arrears. The rent payable by such raiyats can be enhanced only in two ways (i) by contract and (ii) by suit. In the first case the enhancement can be made only at an interval of 15 years and cannot exceed annas two in the rupee. The enhancement of rent by suit is possible only under certain specific conditions. The Act has forbidden the imposition of Abwabs and illegal cesses and fixed the rate of interest chargeable on arrears. The Bengal Tenancy Act of 1885 was amended by Act III of 1898 and Act I (Bengal of 1907).

The provisions of this Act.

The former Amending Act made provision for the preparation of a record of rights so that a fair and equitable rent might be settled for all classes of tenants and the latter Act was passed with a view to facilitating the collection of rents by the Zemindars and at the same time to preventing enhancement of rent by collusive compromise.

The Act of 1885 has been amended by the Act IV of 1928 and by Act VI of 1938.

The Amending Act of 1938 has brought about fundamental changes in the position of tenants :—

(*a*) The occupancy raiyats have been given right of transfer without payment of any transfer-fee to the landlord.

(*b*) The occupancy raiyats have been given rights of pre-emption in case of a transfer made by co-sharer tenants.

(*c*) Sub-division or splitting up of tenancies into smaller fractions has been made permissible.

(*d*) Under-raiyati interest can be created for any length of time without payment of any transfer-fee.

(*e*) The rate of interest has been reduced to $6\frac{1}{4}$ per cent, per annum and the realisation of Abwab has been penalised.

(*f*) The right of surrender has been extended to the under-raiyats.

(*g*) The provision for enhancement of rent have been suspended for a period of ten years.

A keen sense of necessity had led to the enactment of similar tenancy laws in other provinces. We shall briefly discuss the provisions of some of those enactments. In Agra we find two Acts, viz., the Agra Provinces Rent Act of 1881 and the Agra Tenancy Act of 1901. The former Act extended in a measure the provisions of the Bengal Rent Act of 1859. It conferred on the tenants occupancy rights on certain condition. The right could be acquired by twelve years' possession. The Act of 1901 modified the stringent rule for the acquisition of occupancy right by

The Agra Rent Act of 1881 and the Agra Tenancy Act of 1901.

providing that a break for less than or lease for less than seven years could not prevent the accrual of such right.

Agra Tenancy Act of 1926.

The Act of 1901 was modified by the Agra Tenancy Act of 1926. This Act added to the five classes of tenants two other classes and brought about considerable changes in the relation between landlord and tenant. The right of occupancy arises according to this Act when a tenant has held the same land continuously for a period of twelve years. The ex-proprietary tenants are superior to occupancy raiyats in this respect that their rent is 12 per cent less than the rate prescribed for occupancy raiyats. Tenants who do not fall into any one of the following categories, viz., (1) permanent tenure-holder, (2) fixed-rate-raiyat, (3) exproprietary tenant, (4) occupancy tenant, but who were tenants at the commencement of the Act are classed as statutory raiyat and are given a life-tenancy.

In 1939 the Congress Ministry passed the United Provinces Tenancy Act which consolidates and amends the Tenancy Laws of Agra and Oudh. This Act confers hereditary rights on all tenants who are in enjoyment of occupancy rights and occupy their land. The Act also reduces the rate of interest to $6\frac{1}{4}$ per cent.

The Madras Estate Land Act of 1908.

In Madras we find the Madras Estate Land Act of 1608 as amended by the Act of 1936. This Act now regulates the status of the cultivators. They have been given the right of occupancy and cannot be evicted so long as they pay rent regularly. The enhancement of rent is possible under this Act only on certain specific condition. The Act has also provided for the preparation of record of rights so that the tenants may have their rights well-settled and well-defined.

The Punjab Land Alienation Act of 1900.

In the Punjab the tenants' rights have been regulated by law. The occupancy raiyats who are as numerous as to absorb near about $\frac{1}{2}$ of the whole tenant class have been protected from arbitrary ejectment and enhancement of rent. Again, the Punjab Land Alienation Act of 1900 has been passed with a view to restricting the passing away of lands from the hands of tenants to those of the money-lenders.

The Dekkhan Agriculturists Relief Act.

In Bombay there are two important enactments, *viz.*, (i) the Dekkhan Agriculturist Relief Act of 1879 and (ii) the Bombay Land Revenue Code Amendment Act of 1901. The former Act protected the tenant class from the oppression of the money-lenders who had an inherent tendency of depriving the poor agriculturists of their humble holdings and provided for the settlement of claims. The

latter Act gave birth to a new kind of tenure having the characteristic of non-transferability.

Substantial improvement in the position of tenants has been effected by the Bembay Tenancy Act of 1939 which has created a new class of protected tenants. This class includes tenants who have occupied lands continuously for a period of not less than six years immediately preceding 1st January, 1938. They enjoy protection from eviction except when the landlord desires to cultivate the land himself or the tenant fails to pay rent. The Act also makes provisions for determination of fair rent and for compensation on eviction for any improvement effected by the tenant. The exaction of cess, rate, tax or service other than rent is strictly forbidden.

The Bombay Land Revenue Code Amendment Act of 1901.

In the Central Provinces the rights of the tenants have been protected by the Tenancy Act of 1883. The Act has provided for the fixity of rent during the continuance of the term of settlement and has taken away the right of ejectment in cases where the tenants happen to have absolute right of occupancy. Enhancement of rent is also strictly restricted.

The Saharanpur Rules of 1855. :—These Rules were enunciated for the first time when the reveune of the Saharanpur district in N. W. P. was re-settled. The Government of the country used to demand on previous occasions as much as two-third of the net produce of the soil. This led to misery and hardship of the tenant class. The grievances of poor tenants were at length appreciated by the ruling authorities and they, out of compassion, reduced their demands to a maximum of one-half of the net assets. These rules indicate in a measure the seriousness with which the Government has taken up the task of ameliorating the distress of the tenant class of Northern India.

The Saharanpur Rules of 1855 reduced the land revenue.

In 1939 the Congress Ministry led to the enactment of the Central Provinces Tenancy Bill which confers on the occupancy tenants the right to transfer their holdings.

In Bihar the Tenancy legislation has given the settled raiyats an occupancy right which is heritable. The holding of such a raiyat has been made divisible by the Tenancy Act of 1938. In Orissa the tenants have been given right to free standing on their holding and have been exempted from the payment of landlord's transfer-fee.

Questions and Answers

Q. 1. Write explanatory notes on Abwab, Jamabandi, Lakhraj and the Saharanpur Rules. (C. U. 1909.)

Ans *See*—Secs. 26 and 30.

Q. 2. Describe briefly the more important land revenue systems of British India (C. U. 1909.)

Ans. *See*—Sec. 10.

Q. 3. Write a critical note on the nature of land revenue in India; what do you know of the controversy regarding land revenue as being of the nature of a tax or rent? (C. U. 1909.)

Ans. *See*—Sec. 7

Q. 4. Write notes on Jaigir, the Saharanpur Rules and the Raiytwari village. (C. U. 1910.)

Ans. *See*—Secs. 17, 30 and 9.

Q. 5. What do you know of the following :—

The Punjab Land Alienation Act, The Bengal Tenancy Act, The Rent Act of 1858? (C. U. 1911 and '12.)

Ans. *See*—Sec. 30.

Q. 6. State briefly the arguments for and against the Permanent Settlement. (C. U. 1913.)

Ans. *See*—Secs. 5 and 6.

Q. 7. Define a Zemindari and a Raiytwari Settlement. Define also net asset. What are the values and essentials of the Cadastral Record? (C. U. 1913.)

Ans. *See*—Secs. 10 and 26.

Q. 8. State the principal reasons which induced Lord Cornwallis to introduce the Parmanent Settlement into Bengal. Justify or controvert those reasons under the present circumstances. (C. U. 1915.)

Ans. *See*—Secs. 15. 13 and 16.

Q. 9. Discuss the Khas and Zemindary systems of land settlement. Lord Cornwallis discarded the Khas system in favour of the Zemindary system; while the present-day administrators prefer the former to the latter. Give reasons which have led to this change of policy. (C. U. 1916 and 1918.)

Ans. *See*—Sec. 16.

Q. 10 What is meant by records of rights. Indicate the usefulness of the maintenance of a record-of-rights. (C. U. 1916.)

Ans. *See*—Sec. 26.

Q. 11. Explain the necessity and importance of each of the main grounds on which increase of land revenue at the time of re-settlement is generally permitted. Indicate the various steps in the process of land revenue settlement. (C. U. 1916.)

Ans. *See*—Sec. 7.

Q. 12. What are the main features of Permanent settlement? (C. U. 1917.)

Ans. *See*—Sec. 12.

Q. 13. Describe the general principle underlying the system of Patni tenures in Bengal; and examine their social and economic effects. (C. U. 1917.)

Ans. *See*—Sec. 26.

Q. 14. Carefully explain what is meant by a Revenue Settlement in Bengal. How is it carried out? Under what condition can the rent of an occupancy holder in Bengal be raised? (C. U. 1919.)

Ans. *See*—Sec. 27.

Q. 15. Explain as fully as you can the following terms :—
(i) Patwanidar, (ii) Talukdar, (iii) Wakf lands. (iv) Abwab, (v) Utbandi tenures (vi) Khas mahal. (C. U. 1919.)
Ans. *See*—Sec. 26.

Q. 16. Compare the advantages and disadvantages of the Parmanent Settlement with the Raiyatwari system of Land Revenue (C. U. 1919.)
Ans. *See*—Sec. 29.

Q 17. Characterize the principal types of Land Tenures in India and indicate the economic bearing. (C. U. 1920.)
Ans. *See*—Secs. 10, 12, 14, 19 and 20.

Q. 18. Give a short historical account of the Tenancy Legislation in Bengal. (C. U 1920, 22.)
Ans. *See*—Sec. 30.

Q. 19. Argue the case of the reversal of the Permanent Settlement of Land Revenue in Bengal. (C. U. 1924.)
Ans. *See*—Sec. 25.

Q. 20. Describe the main features of Tenancy Legislation in India. (C.U. 1925.)
Ans. *See*—Sec. 30.

Q. 21. "Land Revenue is and has been the mainstay of Indian finance." Discuss this statement and indicate the method and principles by which Land Revenue is assessed in India. (C. U. 1926.)
Ans. *See*—Sec. 27.

Q. 22. One of the objects of the Permanent Settlement, it was argued was to supply capital to the land. Show how far it has served that purpose. Would you justify the continuance of the Permanent Settlement in the present economic and financial conditions of Bengal ? Give reasons for your answer. (C. U. 1922.)
Ans. *See*—Sec. 15 (4) Sec. 28 (ii). and Sec. 25.

Q. 23. State the salient features of the Permanent and Temporary Settlements in India and discuss their merits and defects. (C. U. 1931.)
Ans. *See*—Sec. 11 also Secs. 16 and 17.

Q. 24 Is the Land Revenue in India a tax or a rent ? Give reasons for your answer. In the event of your holding that it is rent, can you justify the theory of State-landlordism in India which it would necessarily imply ? (C. U. 1930.)
Ans. *See*—Sec. 7.

Q. 25 Discuss the arguments for and against the Permanent Settlement of Land Revenue in Bengal. (C. U. 1921, 1924.)
Ans. *See*—Secs. 15 and 16.

Q. 26. Describe the measures taken by the Government to protect the interest of tenants in Bengal. (C. U. 1933.)
Ans. *See*—Sec. 30.

Q. 27. Indicate the economic advantages and disadvantages of the Permanent Settlement of land revenue in Bengal. (C. U. 1936, 1939.)
Ans. *See*—Secs. 15 and 16.

Q. 28. Describe the main systems of Land Settlement established in British India. (C. U. 1937.)
Ans. *See*—Sec. 10.

Q. 29. Indicate generally the principle on which Land Revenue assessment is made in raiyatwari areas. (C. U. 1938, 1940.)
Ans. *See*—Sec. 27.

CHAPTER X

DISTRIBUTION—(*Continued*)

Interest

Sec. 1. Interest in Rural parts and in the Town.

In the rural parts of India interest is governed partly by custom and partly by demand and supply. In the rural districts there is an indigenous system of banking. The village money-lenders serve as bankers. The rate of interest charged by them is very exorbitant. Even in slack season they will not allow the rate of interest to fall below a certain point. This minimum level of interest may be described as a customary rate of interest. Again, in the rural areas we will find that the rate of interest rises during the rainy season. This shows the influence of demand and supply on the rate of interest. The rate charged for money lent again varies in different villages. There is no market-rate of interest in the rural areas. The securities may be equally sound but still the rate of interest will not be the same. This is due to the fact that borrowers are ignorant of the best money-market and will generally borrow from the money-lenders of their own villages where the supply of capital may be less than what is adequate for meeting all the demand for capital. There is one more factor which influences the rate of interest. The villagers are quite helpless and their social customs sometimes compel them to borrow money during ceremonial occasions at any rate of interest which the unscrupulous money-lenders may happen to charge. Thus we find that in Indian villages rate of interest is not determined solely by the condition of demand and supply of capital.

A customary rate to be found in villages.

In towns, however, we will find several banks carrying on lending business. The rate of interest will be influenced by the nature and character of the security offered against the loan and at the same time by the supply of capital with reference to demand for the same. The rate of interst will generally fluctuate from 5 to 12 per cent ; it rises during the busy season which generally commences in September and continues till the end of March in the following year. When the trade boom is over the demand for capital decreases and with it the rate of interest falls. This lower rate of interest generally prevails for about 4 months from April to July.

Sec. 2. The Rate of interest and the Agriculturists.

We have already seen the general causes that are responsible for the rise in the rate of interest in rural areas. We shall now discuss

the reason why the agriculturists have to borrow money at an exorbitant rate of interest and how they are affected by such a high rate. The agriculturists of India are not gererally the proprietors of land they cultivate. They cultivate land as tenant-at-will under other persons who are their landlords. Under these circumstances they have seldom any security to offer against the money that is borrowed by them either for subsistence or for meeting the expenses of cultivation. This absence of security together with the uncertain nature of the industry in which the borrowed capital is invested will, as a general rule, increase the risk of non-payment and prompt the money-lenders to add to the pure rate of interest another sum for the insurance against risk involved in such lending transactions. Thus we see that the rate of interest paid by the agriculturists represents' the reward not only for postponement of enjoyment but also for the risk undertaken by the money-lender.

The reason why the agriculturists have to pay higher rate of interest.

The agriculturists of India have been seriously affected by the exorbitant rate of interest charged upon loans made to them. Even in seasons of plenty they are not in a position to keep back sufficient quantities of food-crops to maintain themselves and their families till the next harvest season. The money-lenders will somehow or other realise their dues as soon as the crops have been gathered and the rent due to the landlords must be paid in due time. After all these payments have been made they have little or no crops to live upon during the year.

Their miserable lot.

The high rate of interest also influences method of production. The cultivators cannot borrow sufficient amount of capital and the result is that they cannot carry on production in an efficient manner. The short stock of capital makes it impossible for them to sow better seeds and to apply adequate quantities of manures ; sometimes we find that land are not properly ploughed even. The Indian peasants cannot for these reasons get better crops. Their condition becomes worse when unforeseen circumstances lead to a fall in the price of agricultural crops.

The effect of high rate upon production

Sometimes money is lent out to the poor agriculturists for unproductive purposes. The agriculturists have to invite their neighbours and relations during marriage ceremony and other festivities and they are forced to incur heavy debts on these occasions. These unproductiye debts increase gradually and a time soon comes when they have to sell their few acres of ancestral land in order to repay their debts.

The unproductive debts.

There is another practice which the village money-lenders often take recourse to. They take advantage of the helpless position of the poor agriculturists and enter into a contract whereby the agriculturists agree to sell their produce to the money-lenders at a price which is lower than the market price. In this way money borrowed by the agriculturists has to be repaid.

Another evil practice.

The agriculturists can seldom clear up their debts in their life time and leave a legacy of debt for their sons. They are quite helpless and have no organisation to compel the capitalists to lend out money at an equitable rate. The load of debt is too heavy for them to bear and the few acres of land they possess pass on to the money-lenders.

High rate of interest.

The misery to which the agriculturists have been put has been the cause of much dissatisfaction and the attitude of the agriculturists towards the money-lending classes is not favourable. Thus there is want of that spirit of co-operation and sympathy which goes a great way in developing the economic, social and political conditions of a country.

A social and political danger.

Sec. 3. The Effect of the Rate of Interest on the Handicrafts.

The high rate of interest has its fullest effect on the condition of the village artisans. In these days of large-scale production the small-scale producers are decidedly at a disadvantage. The latter cannot afford to supply commodities at a price which is just equal to that charged by the large-scale producers. The progress of science has, however, removed in a measure this disadvantage by providing the small-scale producers with appliances suited to such production ; but in spite of this remedy the artisans of India are not in a position to reduce the cost of production. This is due to the fact that they have to pay a high rate of interest on capital that they borrow from the money-lenders. The rate of interest which they have to pay on capital borrowed by them enters into the cost of production and leads to an increase in the price of the commodities that they turn out.

The high rate of interest is one of the causes of the failure of handicrafts.

Sec. 4. The Rate of Interest and the Government's efforts.

The Government of the country has appreciated the evils that follow from the high rate of interest charged by the village money-lenders. It intended to prevent the realisation of exorbitant rate of

Usurious Loans Act of 1918 and its effect.

interest by legislation. Accordingly the Usurious Loans Act was passed in 1918 conferring upon the courts a discretionary authority to reduce the rate of interest to an "equitable amount". The Act as amended in 1926, however, failed to give an adequate remedy against the evil practices of the money-lenders because it became very difficult to go benind a contract so as to decide upon a rate which would be equitable to both the parties. The Bengal Money-lenders' Act, 1940 has been passed with a view to fixing the maximum rate of interest payable on secured and unsecured debts and making provision for the licensing of money-lenders and adjustment of and liquidation of debts. Other provinces have also passed similar Acts. Agricultural Debtors' Act has been passed in many provinces with a view to determining the whole burden of debt and providing for easy instalments of debt.

These legislative measures which are primarily based on the English Money-lenders' Act of 1900 have been criticised on the grounds that they interfere with private contracts, take away vested rights, impede the growth of business and commerce and give too much power to the judge.

The Takavi Loans.

The Government of India has again taken a direct step to relieve the misery of the poor agriculturists by making arrangements for granting loans on easy terms by passing the Land Improvement Loans Act of 1883 and the Agricultural Loans Act of 1884. But these measures have not been very much effective inasmuch as the conditions accompanying the grant of loans is very stringent. The agriculturists, again, are not willing to take advantage of this favour because they, on account of their illiteracy, look upon the Government with suspicion. Another step that the Government has taken has been to inculcate the spirit of co-operation among people and thereby to enable them to solve their own problems by their own efforts.

Sec. 5. The Rate of Interest and the Co-operative Credit Society.

To liberate the poor Indians from the Usurer's yoke Co-operative Credit Societies have been established in India. The villagers can now easily form co-operative credit societies and can accumulate a large amount of funds by selling shares, by attracting deposits and by borrowing. These societies borrow money on a joint responsibility and therefore at a lower rate of interest. They must utilise the funds and this they do by making loans at a rate of interest

Factors influencing the rate of interest.

which is slightly higher than the rate at which money is borrowed by them but which is much lower than the rate charged by the village money-lenders. The rate charged by a society is generally influenced by two factors. *viz* :—(i) stock of capital and (ii) the demand for loans. This is the reason why the rates of interest charged by different societies are not uniform. In India there is as yet no market-rate of interest; with the diffusion of co-operative banking and the establishment of an All-India organisation there is a great likelihood that such a market-rate of interest will be established in the near future.

Sec. 6 Want of Banking facilities and the Rate of interest.

In India, unlike other civilised countries, the organisation of banking is still in its infancy. In towns there are few banks financed by foreign capital managed by foreign directors; but these are quite insufficient for meeting the demand of capital. Again, in moffusil we find that banks are conspicuously absent. The result is that the people had no other alternative than to depend upon the money-lenders, and are forced by circumstances to borrow at a very high rate of interest, although they have good security to offer against the loan. The rate of interest cannot fall unless there is adequate banking facility throughout the whole of India.

The high rate of interest is mainly due to want of banking facilities.

Attempts should be made to develop the Banking System of India. In 1929 a Central Committee of Enquiry and ten local committees were set up to study the present system of banking in general, and in particular to suggest schemes whereby the indigenous and joint-stock banking might be developed in accordance with the requirements of agriculture, commerce and industry. The central committee was also advised to recommend methods of improving technical instruction in such a way that a sufficient number of qualified Indians might be forthcoming to satisfy the country's need for a sound and well-managed banking system.

Improvement in the banking system.

The creation of the Reserve Bank of India and the provision for the creation of an Agricultural Credit Department with the object of a concerted action in the domain of agricultural credit are happy indications in the right direction and may in the long run reduce the rate of interest.

Questions and Answers

Q. 1. It is said in India that the rate of interest is not always determined by the condition of supply and demand of capital and that the Co-operative Credit

Societies are tending to the establishment of what is called a market rate of interest. (C. U. 1918.)

Ans. *See*—Secs. 1 and 5.

Q. 2. What influence do the banking facilities exert on the rate of interest? Show how far the Indian rate of interest has been influenced by them.

Ans. *See*—Sec. 6.

Q. 3. What step has the Government taken for reducing the rate of interest?

Ans. *See*—Sec. 4.

Q. 4. Describe the nature of the rate of interest as prevalent in rural parts of India; how does it affect the agriculturists?

Ans. *See*—Sec. 2.

Q. 5. The expropriation of the peasantry by the money-lenders is a social and political danger. Explain this and indicate the remedies that have been applied to meet this evil. (C. U. 1929.)

Ans. *See*—Secs. 2, 4 & 5.

CHAPTER XI

DISTRIBUTION (*Contd.*)

Wages

Sec. 1. How Wages are Determined.

The rate of wages is governed by the condition of demand for labour with reference to supply of it. If the existing supply of labour in a village is not sufficient to meet adequately the demand for it, there will be competition among the employers, with the result that there will be a rise in the rate of wages. This is true in every country where there is little or no mobility of labour and is a peculiar feature of Indian wages; one important point deserves notice in this connection. This is the influence of custom on wages. Although in these days of civilisation custom is yielding place to competition still the ignorant, immobile and unskilled labourers of India have not yet been able to shake off the influence of custom upon wages. They will be found to accept customary wages when the payment is made in terms of produce; but the state of things is disappearing fast and the influence of competition on wages cannot be ignored at the present time.

Determined by custom and by the law of Demand and supply.

Sec. 2. The Rates of Wages of different classes of labourers.

Classes of labourers.

In India as in every other country there are different classes of labourers and the rates of wages are as numerous as there are classes of laboureres; the labourers of India may be classified under the following groups :—(1) the agricultural labourers, (2) the artisans, (3) the industrial labourers, (4) those engaged in educated service.

Wages of the agricultural labourers.

Agriculture is often carried on with the aid of hired labourers. They are sometimes remunerated by money wages but often we will find that their wages consist wholly of payment in kind or partly of money and partly of a share in the produce. During the harvest season there is an increase in the demand for this class of labourers and the rate of wages rises to the maximum point. In other parts of the year there is little demand for their services and they will be found to sit idle. The rate of wages of this class of unskilled labourers has, as the statistics show, fallen to a certain extent. In Bengal the rate of wages varies from 6 annas to 4 annas daily.

Wages of the skilled labourers.

The services of the artisans are described as skilled labour. This class includes the carpenters, masons, blacksmith and such other labourers whose work shows some amount of skill and as such can easily be distinguished from the services of unskilled labourers. Before the monetary system of exchange came into existence their services were rewarded by the payment in kind but at the present time they get their remuneration in terms of money according to the piece-work system of paying wages. Next we come to the industrial labour. This class includes the labourers who are engaged in mills and mines as well as those who earn their livelihood by producing textile fabrics and dresses. They are as numerous as to make up about 16 per cent. of the whole population of India. The rate of wages varies according to the grades of labour and is influenced by the law of demand and supply. The wages of industrial labour have witnessed a phenomenal decline before the last Great War. The wages in Bombay mills as compared with those of July, 1926 were lower by 21 per cent in April 1934. The fourth class of labour with which we are concerned in this section is represented by those who are engaged in services which cannot be performed by illiterate persons. The condition of this class of labourers is becoming miserable day by day. The learned professions have been overcrowded to the utmost point and show little or no prospect to the newcomers.

Wages of the industrial and learned labourers.

Sec. 3. Low Rate of wages in India.

The rate of wages is intimately connected with efficiency. The employers engage labourers with a view to deriving certain profit out of the transaction. They will be found to make the best use of the existing stock of different grades of hired labourers by engaging each operative to perform those operations for which he has sufficient skill. The remuneration will be adjusted according to the skill of the operatives. This fact, in a way, explains the different rates of wages payable to different grades of labour engaged in the same industry and at the same time accounts for the low rate of wages. The wages paid to the labourers are scarcely sufficient to procure the articles that go to improve their efficiency and the result is that the labourers cannot command higher wages. The lower rate of wages in certain areas is also due to want of mobility of labourers. The labourers are home-sick and will not be willing to move to other places where the demand for their services is very great. The labourers are also deprived of their legitimate shares by unscruplous employers. The Trade-union movement is still in its infancy and cannot exact better wages from the employers.

The rate of wages depends upon efficiency.

Sec. 4. The Low paid Labour is not necessarily cheap.

It is an uncontested fact that the rate of wages paid to the Indian labourers of a certain grade is less than the corresponding rate paid to the labourers of the same grade in other countries that have flourished in the sphere of industry ; from this fact the foreigners will be found to argue that the Indian industries have an advantage in this respect over similar industries of other countries. This method of reasoning is fallacious inasmuch as it is based on the presumption that labourers of India are as efficient as those of other countries ; but when we look into the actual state of things and compare the efficiency of Indian labourers with that of the labourers of other countries it will be quite clear that the presumption cannot stand. The Indian labourers are so very inefficient that, when compared with the labourers of the same grade of other countries, they do not deserve the rate of wages at which they are at present remunerated. Even if we assume that the efficiency of the Indian labourer as compared with that of the labourers of other countries is proportionate to the amount of wages paid to them still they cannot be employed with profit because the Indian businessman will require more appliances than what will be required by a similar businessman in a different country where the labourers are more efficient.

India's industries are not benefited by the low rate of wages.

Sec. 5. The Mobility of Labour : how it influences wages.

Indian laboureres are generally immobile. They are so fond of their domestic life that they will be willing to lead miserable lives in their humble cottages rather than accept very lucrative jobs in a distant place. This want of mobility has been one of the causes of difference in the rates of wages in different provinces. Even the rate of wages of one grade of labour as prevalent in one village will be found to differ from the corresponding rate in another village which is adjacent to the former village. The pecuniary conditions of the labourers will be greatly improved if they are less home sick and more enterprising. They should not hesitate,in the least, to leave their homes if by doing so they can get higher wages and live in comfort. Again, the development of the means of communication has made it possible for the labourers to sell their services at distant places where the demand for labour is sufficiently great to fetch higher wages. It is a happy news for India that her labourers are becoming more mobile than what they had been in earlier times. We will find an influx of labour from Orissa to Bengal during the harvest season when the demand for agricultural labour reaches the miximum point.

The free mobility of labour.

Sec. 6. Rate of Wages in different Provinces.

On account of the want of mobility among labourers there prevail different rates of wages in different provinces. In Bengal the average rates of wages of unskilled labourers did not before the war exceed 5 as. a day. The wages of skilled labourers were higher than that of the unskilled labourers. In Bombay the average rate of wages of unskilled labour varied from 11 to 13 as. and that of skilled labour might sometimes amount to about Rs. 2-8 a day. In the Punjab the rate of wages for unkilled labour varied from Rs. 2 to Rs. 2-8 a day.

Different rates of wages.

Sec. 7. The Rise in wages between 1917 and 1920 : its causes.

If the rate of wages between 1917 and 1920 is compared with that of 1914 it will be found that there was an appreciable rise in the nominal wages of the labourers. It is interesting to note the causes that were responsible for this rise. The most important of the causes was the rise of prices. The cost of living index during the period showed that prices had been steadily rising after the end of the war till it reached the zenith in October 1920. The wages had to be raised in response to high prices. The cotton mill-owners had taken to the device of giving increases in the form of percentage additions to war or dearness allowances over the basic rate

The causes of the rise in nominal wages.

of 1914. The employers also were in a position to raise the wages because of the high prices which their commodities fetched. The permanent profit which businessmen in general and millowners in particular, earned during these years enabled them to pay bonuses in addition to wages.

The next important cause of the rise in wages was the rise in efficiency of the industrial labourers. The introduction of up-to-date method of production had gone a great way in improving the efficiencies of the workers and for that reason they could demand higher wages.

Efficiency and wages.

Sec. 8. The Relation between Prices and Wages.

There is some sort of connection between wages and prices ; whenever there is a rise in the price of articles, the labourers will make agitation for an increase in the rate of wages ; but such an agitation will not necessarily be followed by higher wages unless the former wages were less than what the labourers might legitimately demand according to the doctrine of marginal productivity. In fact the employers will not raise wages so as to reduce their normal profit. Again, the rise in the price of articles produced by the hired laboures will permit a rise in the rate of wages. It is important to note in this connection the effect of abnormal rise in the price of food-stuffs upon the wages. In times of scarcity a large amount of capital is spent for procuring food and this reduces the fund available for the employment of labourers. Thus there is unemployment and in consequence there is competition among labourers to get themselves employed at lower wages.

The rate of wages may be raised if the articles produced can be sold at higher price.

	1913	1916	1919
Cotton ...	Prices 100 Wages 100	Prices 130 Wages 103	Prices 170 Wages 129
Rice ...	Prices 100 Wages 100	Prices 92 Wages 100	Prices 107 Wages 100
Jute ...	Prices 100 Wages 100	Prices 215 Wages 100	Prices 135 Wages 103

It is to be borne in mind that there is no causal connection between prices and wages. The increase in prices does not lead to the proportionate rise in wages. Wages often lag behind. The converse is also true; the wage-earner will not be willing to accept lower wages because price has fallen. Sir Purushottam Das Thakurdass points out that the famous strike of textile workmen of Bombay which took place in 1925 illustrates their unwillingness to reduce their wages in response to the fall in prices.

No causal connection between price and wages.

Sec. 9. The Postwar Fall in Wages: its Causes.

We have already seen how the wages of labourers rose in consequence of rise in price level during 1917-1920. But this happy state of things did not continue for ever and and a period of depression set in towards the end of the year 1922. The year that followed witnessed a severe decline in the price level and the Index numbers stood at 156 as compared with 183 which represented the annual average of the monthly Index numbers in 1920. The cotton mills were seriously affected by this phenomenal fall. The employers were hard hit and organised efforts were made by the mill-owners for reducing the wages of labourers. Such a move did not find favour with the workers and the quin-quennium of 1921-26 witnessed the out-break of no less than I,154 strikes in India involving nearly two million workmen and causing a total loss of thirty-seven and a quarter million working days. The method of rationalisation whereby cotton mill-workers would be asked to look after a greater number of spindles and more looms made the situation worse and added to the number of strikes. This weapon was roughly successful in preventing a serious cut in the wages.

Phenomenal fall of price level.

The sharp downward trend of prices which set in about the middle of the year 1930 continued till 1933, when the cost of living index for the working class reached the pre-war par. The wages in most industries, on the other hand, had continued almost at the same high levels of 1929-30. The commencement of the year 1932 saw the beginning of a new wave of depression in industry. The production had to be curtailed and many mills had to close their doors. Many workers were thrown out of employment and were compelled to accept lower rates of wages. In this way the rates of wages were ultimately made to respond to the level of prices.

Sec. 10. The Trade-Unions: their Weapons.

By trade union we mean a union of labourers belonging to a particular trade; such a union generally comes into existence when

the grievances of the labourers reach their zenith ; but sometimes they may be occasioned by less important causes. In India the organisation is still in an inchoate state ; it will take a long time to attain such amount of solidarity as has been reached by similar unions of other countries. Most of the unions have no permanent existence but are mere strike organisations continuing as such still the cessation of strike. The illiteracy of the labourers makes it imposible for them to comprehened fully the utility of such organisation and the failure of strikes has the effect of disheartening them. Again, the humble income of the Indian labourers does not permit the regular payment of contribution for the upkeep of such organisation. The migratory character of the industrial population and their heterogeneity have slackened the growth of Trade Union movement in India. The want of unanimity among the labour leaders, the existence of all powerful jobbers, the organised opposition to trade unionism by employers, the victimisation of workmen who take the lead in trade union activity and above all the amendments in the Penal Code which made trade union illegal bodies in the eye of law —all these factors combined to check the progress of Trade-Unionism in India. The movement, however, owes its present strength to the efforts of Mr. N. M. Joshi, the Labour Member who duly impressed upon the Government the necessity of giving a legal status to the Trade-Unions. In 1925 a draft-bill was introduced into the Legislative Assembly with a view to giving legal recognition to the trade-unions. That bill was passed into an Act in regular course. The legal recognition thus secured surely stimulates the activity of the trade-unions.

The defective organisation of the trade-unions and its causes.

This Act which is known as the Trade-Union Act of 1926 offers to all *bonafide* Trade Unions an opportunity of registration. The registered unions are under obligation to frame rules in certain matters, to have their accounts audited, to provide for a minimum proportion of workers on the executive and to confine expenditure on certain specified objects. These unions enjoy certain privileges which may be briefly described thus :—The members and officers of the unions obtain protection from liability for breaches of contract in respect of Acts done in furtherance of trade disputes and the officers are in some respects immune from prosecution for criminal conspiracy. This Act has fostered the growth of trade-unions and the number of registered unions was 555 in 1938-39 with a total membership of 399,159. The Ahmedabad Textile Labour Union is the model union of the kind. The trade-unions are found to organise strike which is their principal weapon. They have no control over consumers and cannot for that reason take recourse to

Trade Union Act, 1926.

boycott which is another weapon frequently used by trade-unions in other countries. The trade-union movement has been strengthened by the presence of central trade-union organisation known as the All-India Trade-Union Congress which has been holding its annual session since 1920. This congress had the privilege of sending its representatives to the Labour Conferences at Geneva and its primary object is to co-ordinate the activities of Industrial Labour union. As soon as the Communists succeeded in capturing the Congress they launched upon a revolutionary programme. The Moderate Trade Unionists who could not support the programme, seceded from the Congress and formed a new organisation known as the Indian Trades Union Federation under the leadership of Mr. N. M. Joshi. The Government accepted the latter body as the body competent to recommend delegates to the International Labour Conference. In 1935 the two sections of the Trade-Union Congress composed their differences and it was agreed that a joint committee of the two organisations was to be formed with a view to exploring the possibilities of combined action with the help of affiliated unions of both.

Trade Union Federation.

On the 17th April, 1938 it was decided at the joint session held at Nagpur to combine the two bodies into one central organisation and that the basis of representation on the Joint General Council of the combined Trade-union Congress would be fifty-fifty. In the eighteenth session of the All-India Trade Union Congress held in 1940 the General Council passed resolutions demanding immediate repeal of the two ordinances—one regarding conscription of labour and another amending the Payment of Wages Act—and calling upon the constituent unions to carry on persistent campaigns for securing adequate dearness allowance.

Sec. 11. Strikes and their Characteristics.

The workmen take recourse to this weapon in their struggle with the employers. The employers always try to get the highest profit and for this reason they are not willing to give the labourers wages which they deserve. The employers, however, cannot carry on production unless the labourers agree to sell their services. If the labourers all on a sudden suspend their work, the whole machinery will stop and the capital that has been invested will remain idle. This is the reason why the employers are sometimes found to come to speedy settlement of industrial disputes. The labourers again are at a disadvantage because they have little or no fund to maintain themselves and their families during the time when they sit idle; but in India industrial labourers do not simply depend upon their wages and they can easily return

Importance of labour in production.

CHAPTER XII

DISTRIBUTION—(*Contd.*)

Sec. 1. The Rate of Profit.

It is very difficult to state accurately the rate of profit derived by a businessman in an Indian industry. The rate of profit depends mainly upon the ability of a particular businessman. It is incorrect to say that every businessman engaged in the same business derives the same amount of profit. Still we will try to determine the average rate of profit in a particular business. In agriculture the rate of profit is lower than that derived from manufacturing business. This is so because the former has to depend greatly upon nature and the efforts of men, however careful, cannot override the influence of nature. The profit derived from agriculture is uncertain to a very great extent. In spite of this uncertain and fluctuating character of agricultural profit we can say that the average rate of profit varies from Rs. 10 to Rs. 15 per acre. The manufacturing industries have not to depend upon nature but the rate of profit depends in a great measure upon the organising faculties of the businessman. If the business is under the management of an able organiser it will yield a fabulous amount of profit. Some of the highly organised industries have been found to yield profit varying from 50 to 80 per cent but ordinarily, manufaturing business will yield a rate of profit which will range from 8 to 16 per cent.

Varies according to the nature of business.

Sec. 2. Why the Rate of profit is so Low?

In comparison with the rate of profits derived by businessmen of other countries the rate of profit is very low in India. It is interesting to study the reasons behind such low rate of profit. First, the businessmen of India are less enterprising and in consequence, cannot take risk as boldly as the businessmen of the western countries can do. There are in India few men who may aspire to the position of a leader of industry. Secondly, the businessmen of India have not sufficient fund to invest in their business. They cannot for that reason carry on production with the help of up-to-date machinery. Thirdly, production cannot be carried on on a large scale and as a result of this the manufacturers cannot derive in full all the economies that follow from large-scale production.

Causes of the low rate earned by Indian businessmen.

Fourthly, the Indian market has been thrown open to the

foreigners who have already established flourishing industries and are in a position to produce articles with a lower cost of production. The Indian industrialists are faced with this foreign competition and are compelled to reduce the price to a level which will leave a very insignificant amount as surplus over cost of production. If foreigners are ever placed under such circumstances their government will come forward and protect them from foreign competition by the imposition of heavy protective duties upon the imports of such rival commodities. In India, however, in spite of the efforts of the government to protect the infant industries such a state of things does not exist.

Foreign competition.

Sec. 3. The Domestic Competition : how it Affects Profit.

We have seen in the preceeding section how foreign competition has reduced the rate of profit ; we shall now discuss how domestic competition affects the rate of profit. To a superficial reader of Indian Economics it may appear that it is useless to distinguish one kind of competition from the other kind of it when both seem to play the same part so far as the rate of profit is concerned, but if we study the problem with a bit of scrutiny we will at once come to the real point of difference. A foreign competition may ultimately lead to the destruction of the infant industry and make the country dependent upon another for the supply of the article while domestic competition will have the effect of reducing the rate of profit merely. It should be noticed in this connection that every industry is not subject to competition in an equal degree. The competition is generally very keen in industries that require business faculties of an ordinary character ; but in business which is attended with much risk and which can be profitably conducted by a businessman of exceptional merit, there is little or no competition. Such businesses are under the control of few persons and in consequence the rate of profit is much higher than the ordinary rate.

Domestic competition is to be distinguished from foreign competition.

Sec. 4. The Profit of Middlemen.

In Economic science 'production' means creation of utility ; the term 'producer', therefore, is wide enough to include persons who will not ordinarily be regarded as such. The middlemen with whose profit we are concerned in this section can be regarded as producers because they render some useful services to the community. These middlemen comprise money-lenders, traders, exporters and several other persons. These persons will sometimes be found to take advantage of the ignorance and helplessness of the real producers

Various classes of middlemen.

and will derive enormous profit at the expense of those producers. Let us first turn to the money-lenders of the rural areas. They will be found to lend money to the agriculturists often on condition of the payment of crops when the harvests have been reaped. They sell out the amount of crops so obtained and their profit is measured by the sale-proceeds. Again, we will find traders who are producers in the sense that they facilitate the transfer of commodities from the real producer to the actual consumers. Their profit includes a remuneration for organisation and the element of risk is greater in such trading business than in money-lending business. They are legitimately entitled to the amount of profit that they earn while the profits of money-lenders are partly due to the extortion practised upon the helpless producers. Again, we will find a separate class of middlemen who are known as brokers. Those persons work as intermediaries between buyers and sellers and are generally remunerated by commission. In India the number of middlemen is increasing day by day. There are several causes which have been responsible for such growth.

Why the number is increasing.

First, when there is a tendency towards rising prices it becomes possible for the middlemen to derive huge profits ; again, there is little chance of loss if the circumstances show that the prices of articles of a particular trade will go on rising steadily. Secondly, the small-scale production is being replaced by a large-scale production with the result that it is practically impossible for the producer to dispose of the whole output without the help of intermediaries. Thirdly, the producers are sometimes ignorant of the nature of demand for the articles in a foreign country.

Questions and Answers

Q. 1. Why is the rate of profit so low ? Compare the rate of profit of the Indian businessman with that of a businessman in a foreign country.

Ans. *See*—Sec. 2.

Q. 2. Discuss the effect of both domestic and foreign competition upon profit.

Ans. *See*—Sec. 3.

Q. 3. Compare the rate of profit in agriculture with that in manufacture.

Ans. *See*– Sec. 1.

Q. 4. State the nature of profit derived by middlemen.

Ans. *See*—Sec. 4.

CHAPTER XIII

FOREIGN TRADE AND FISCAL POLICY

Sec. 1. Early History.

Ancient trade of India.

We find at the present time that India has developed her commercial connection with almost all the civilized countries of the world ; but when we study the history of this development we will come to learn that this development has not been attained in the course of a single century. India had to struggle hard for centuries together before she could reach the stage at which we find her today. At first India used to trade by land with China, Arabia and Persia and it is believed that there was tradal relation with Europe through Arabia.

During the Muhammedan period.

India's trade by sea commenced as early as the 6th or 7th century B. C. but the sea-route was not very extensive and it did not offer much facility for international commerce. In the Muhammedan period India ceased to carry on her trade with Europe and the sea-route was completely discarded. The sea-trade thus remained in abeyance till it was revived by the discovery of sea-route by Vasco-De-Gama. This discovery of sea-route to India contributed much to the re-establishment of tradal connection with Europe. At the beginning there was an open competition between the Dutch, the French and the English companies but later on the English East India Company succeeded in securing a practical monopoly of trading with the East. In this way enterprising foreigners began to develop their commercial relation with India which had been a fabulous name to them ; but they were confronted with difficulties of various character. Their trade was hampered by natural obstacles and by the wars that broke out at intervals on account of the untiring attempts made by rival nations to subdue one another. The sea-route was not in such a developed condition as to facilitate communications between different countries. The trade, again, was restricted to articles that could be found near the coast. The articles that were produced in the interior could not be available on acount of the absence of internal communication.

The discovery of sea-route.

When the East India Company established their trade marts in India, India's chief exports consisted of manufactured silk and cotton

goods, raw silk and specialties (such as saltpetre, indigo, opium and pepper) in return for which she imported specie, woollens, metals (copper, tin, lead, iron, and steel) and naval and military stores. In course of time Great Britain imposed protective duties on the manufactured goods imported from India and for that reason India was forced to take up the position of a plantation supplying England with raw materials which were required by her manufacturing industries. The monopoly of the English East India Company was taken away in 1813 but they continued in their monopolistic position for a period of time by regulating the Tariff policy and assuming control over Railways, shipping and banking but gradually other foreign countries, *e.g.*, Germany, Japan and U. S. A. developed their industries and came to compete with England in the supply of manufactured articles which India happened to require.

Policy of the East India Company.

Sec. 2. Development of Foreign trade: How far Growth of Foreign trade enhances economic prosperity.

The foreign trade of India was facilitated very much by the excavation of the Suez Canal. The Suez Canal plays an important part inasmuch as it has annihilated distances and facilitated the speedy transport of articles of merchandise from India to England. The application of steam power has also rendered much assistance in this connection. Again, the introduction of railways has improved internal communication and has thereby caused an extension of the foreign trade. Besides these two factors, there are several others which have contributed to the development of India's commercial relation with foreign countries. Whenever we study the foreign trade of a country we will at once realize the importance of fiscal policy in the development of the trade. A country which is conscious of its own interest will often try to restrict the importation of cheap foreign goods so that its domestic industries may not die out untimely. This has been the state of things in U. S. A. and Germany. In India the tariff policy has been so moulded as to facilitate the importation of cheap foreign goods to the detriment of the infant industries. The free trade policy was adopted by India. The duties, however, have been imposed for revenue purposes but they are too low to impede the progress of foreign trade. The foreign trade has proceeded without any hindrance from the government. Another important factor in the development of India's foreign trade has been the stability of exchange and the responsibility of the government in this connection. The establishment of Exchange Banks in India has played no mean part in financing the foreign trade of India.

The Suez Canal helped the trade.

All the above factors have their influences upon the expansion of India's foreign trade. The total value of India's export and import amounted in 1941-42 to Rs. 410'8 crores as compared with Rs. 34 crores in 1850-51. This comparison connot however give us an accurate idea of the development of foreign trade because there occurred substantial changes in prices between the two periods. Nevertheless it goes unchallenged that increase in the value of the foreign trade has been immense and India now stands fifth in the list accounting for 3 per cent of the world's total trade.

Total volume of foreign trade.

The growth of foreign trade is thus an indisputable fact. The volume of trade has expanded so much that India now occupies the fifth place among countries of the world. Now the question is how far this growth promotes economic prosperity of India. An increase of foreign trade is not always the true index of economic prosperity. International trade is governed by the principle of the comparative cost ; when a country can afford to produce commodities at lower cost it will be in a position to increase its exports and other countries which remain backward will have to part with their precious metal or raw materials at a loss in payment of the price of the imports. Again, the cheap foreign products often kill the infant industries on the success of which depends the economic prosperity of a country. This has been the state of things in India and a rapid growth of foreign trade has been detrimental to her economic prosperity,

Sec. 3. The Condition of Trade during the Great War of 1914-18.

Though the balance of trade during the war time has lost much of its importance still it will give us an idea of the circumstances under which India which is ordinarily a debtor country may attain the proud position of a creditor country. During the last war India had to supply the belligerent countries with foodstuffs and other articles. The export of manufactured articles also increased considerably because the industries of England could not at that time turn out commodities to meet the total demand for them. Again, other countries which formerly supplied England with commodities restricted their trade with her. The result was that England's demand for Indian raw materials and manufactures increased enormously. The increase in the export of manufacture was principally due to the artificial stimulus given to the industries like cotton, leather, jute, steel and iron. But although the export trade in certain articles increased,

India became a creditor country.

Why the total export trade received a setback.

the total export trade received a setback on account of the following reasons—(1) India had to suspend her trade with Germany which was one of her best customers. (2) Demand for raw materials fell because the belligerent countries neglected their industries during the war. (3) The freight charges increased considerably on account of want of ships to carry India's exports. (4) The unstability of foreign exchange and the curtailment of the sale of council bills had their influence upon the export trade of India. Another important effect of the war was rise in prices ; the price of imported articles, however, was higher than that of the articles of export. For this reason the import trade was rèduced to a very large extent. There were also other causes of the decline in India's import ; first, the countries were engaged in warfare and for that reason could not properly carry on their production of articles of merchandise ; and secondly, every country tried its best to preserve the stock of precious metal that they possessed.

Sec. 4. The Trading Position of India.

The trading position of India as of every other country is determined partly by the need of other countries for her products and partly by her capacity to satisfy her own necessities. If we review the foreign trade of India we will at once find that India is in a strong position as regards the need of other countries for her products. She has practical monopoly of raw jute and in the manufacture of jute. The Calcutta Jute Mills have already eclipsed those of Dundee. She has semi-monopolies or specialties in lac, goat skins, teak and mica ; her tea, rice, pig iron, raw cotton, oilseeds, manganese are produced under highly favourable conditions and are in wide demand.

Practical monopolies.

As regards the supply for her own wants India has immense possibilities before her and will not have to mourn the loss if the foreign countries choose to withhold their articles from Indian market. India is self-sufficing as regards foodstuffs, textile, raw materials and a large deposit of coal and highgrade iron-ore. India has already attained success in the manufacture of cotton goods and may attain similar success in other spheres. Chief difficulties that stand in the way are the increasing dependence of India on foreign supply of mechinery, plant, tools, iron and steel goods and chemicals and the highly localised character of power resources necessitating importation of cheap coal and oil from foreign countries.

India is self-sufficient.

Sec. 5. Balance of Trade.

By balance of trade we mean the difference between the value of export and that of import. When India has an excess of export over imports the balance of trade is in her favour and she becomes a creditor country to that extent ; but if the value of import exceeds that of export the balance of trade is against her and India in that case is said to have an unfavourable balance of trade.

Visible and invisible exports and imports.

We should bear in mind this one important fact that a country's balance of trade is not wholly represented by the difference in the value of her exports and imports of merchandise. The export of merchandise constitutes her visible exports merely. There are other items which go to extend the credit of a country. These are technically termed as invisible exports. Let us take one concrete case. The capital that is remitted to India by foreigners for financing Indian industries falls within the category of her invisible exports. This is so because her credit is extended as soon as the above remittances are made. A debtor thus becomes a creditor to the extent of the loan that another has agreed to grant in her favour. Similarly, there are items which constitute a country's invisible imports. As for instance, the interest that India pays every year to England for capital borrowed from her, goes to augment the import or debit side of the country. The net balance of trade is to be found out by taking into account both the visible and invisible exports and imports. If the value of the visible and invisible items of export exceeds that of the visible and invisible items of imports, India can be said to have a favourable balance of trade.

A brief review of the export and and import trade of India.

Leaving aside for the present the invisible items of export and import we may have a brief review of the export and import of merchandise and treasure. In 1929-30 the balance of trade in merchandise was Rs. 78·98 crores while the total visible balance was Rs. 52·78 crores. This shows that India used to import treasures in excess of her export of treasure. The year that followed (*i.e.*, 1930-31) witnessed a substantial reduction in the balance of trade in merchandise. It was Rs. 62·53 crores as against Rs. 78·98 crores in 1929-30 ; but as the balance of transaction in treasure was against India the total visible balance came down to Rs. 37·60 crores. In 1931-32 the position of India became worse on account of trade depression. In that year the balance of trade in merchandise was Rs. 34·83 crores only, while she had to pay Rs. 35 crores annually as Home charges. The export of

about 58 crores worth of gold during that year saved the situation and led to substantially active balance of Rs. 90·48 crores. In 1932-33 the export surplus (in merchandise) fell to only Rs. 3·36 crores which is only about one-tenth of the Secretary of State's needs. A serious financial dislocation would have resulted were it not for the exodus of Rs. 65·53 crores worth of gold from India. During the year 1933-34 the export surplus went up to Rs. 14·71 crores but the export of treasure was substantially large. The result was that the total visible balance of trade came up to Rs. 91·94 crores. In 1934-35 the visible balance of trade in merchandise and treasure was in favour of India to the extent of Rs. 78 crores. The years that followed showed a downward movement. In 1937-38 the total visible balance was measured by Rs. 30 crores while in the year 1938-39 the balance was Rs. 29 crores. This estimate leaves out of account the figures of Burma which has been politically separated from India. Taking Burma and India as an economic unit for this purpose the balance stood at Rs. 56 crores in 1938-39. The total trade during 1939-40 increased by 17·9 per cent to Rs. 371·34 crores while the balance of trade in merchandise rose to Rs. 48·90 crores. This improvement has been mainly due to heavier demands for Indian produce since to the outbreak of the present war. The year 1941-42 registered a big increase in the turnover of India's overseas trade and resulted in a favourable balance of trade in merchandise to the extent of Rs. 38 crores while the surplus of export over imports advanced to Rs. 80 crores in 1941-42.

The succeeding years went to extend the balance in favour of India with the result that there was a huge accumulation of sterling balances after the discharge of India's current obligation in England and repatriation of her sterling debts.

India's Balance Sheet

Credit side.	*Debit side.*
1. Value of exports of merchandise and treasure.	1. Value of import of merchandise and treasure.
2. The capital borrowed by the Government.	2. Expenditure abroad on Government account in connection with furlough, pay, pensions, stores, bullion, etc., purchased for the Government of India (Home charges).
3. The capital borrowed by private enterprisers.	3. Interest paid by India for capital borrowed.

India's Balance Sheet

Credit side.	*Debit side.*
4. Money import by tourists to meet their expense in India	4. The freight Charges paid to foreign ship.
5. Other remittances made by foreigners to India.	5. Remittances made by private persons to meet the expenses of their children to foreign countries.
	6. Purchase of foreign securities.
	7. Investment made by European merchants and Civil Servants of India in other countries.
	8. Premiums on policies issued by Foreign Insurance Companies.

Sec. 6. Why Export is Greater than Import.

If we study the peculiar character of India's foreign trade one important fact is sure to attract our attention and will sometimes puzzle our brain. This is the excess of India's export of merchandise. India usually exports commodities the value of which exceeds the value of its imports. In 1934-35 the visible balance of trade in merchandise and treasure was in favour of India to the extent of Rs. 78 crores as compared with Rs. 109 crores in 1925-26. On account of the separation of Burma from India and decline in the export and import the surplus of merchandise and treasure came down to Rs. 29 crores in 1938-39. It is interesting to note the reason behind such excess of exports over imports. The reason cannot be explained without reference to the intimate relation that India happens to bear with England. India has to pay Home charges every year to the extent of nearly £34 millions. This obligation on the part of India has reduced her to the position of a debtor country by augmenting the invisible items of imports. Again, there are other factors which have been responsible for this excess of exports over imports. India's stock of capital is not sufficient for the proper utilisation of her natural reasources and she has no other alternative than to borrow a huge amount of capital from foreign countries. The capital borrowed on this account has to be repaid in the long run and the interest charged on that debt has the effect of increasing her liabilities to foreign countries. Again, India has to pay huge sums of money as shipping insurance and banking charges for the services rendered by foreign countries in aid of India's foreign trade. These factors together with others of similar nature can in a measnre account for the excess of India's export of merchandise and treasure.

Excess of India's export over import.

Sec. 7. The Peculiarities of India's Foreign Trade.

The articles that enter into foreign trade have increased.

Before the excavation of Suez Canal and the introduction of the Railways India's foreign trade was restricted to the articles of high value in small bulk that were available near the coast. The articles that entered into foreign trade during that time were few in number. The application of steam power to sea traffic and the development of internal communication have caused an expansion of the foreign trade of India with the result that almost all the civilised countries of the world have now established their commercial connections with her. The articles that now enter into foreign trade have increased in number.

An exporter of raw materials and an importer of finished products.

We are here concerned with the characteristic features of India's foreign trade. One such characteristic is the excess of export over import. This as we have already said has been due to the peculiar circumstances under which India at present lies. Secondly, if we study the character of articles that enter into foreign trade we will at once find that India has been the exporter of raw materials and importer of finished products. The commodities that India exports are more bulky and in consequence demand a large number of ships to carry them. India has for that reason to pay a huge amount as freight charges. More ships are to be sent than are required for carrying her imports which consist of manufactured articles. The foreigners are therefore decidedly at an advantage in this respect. Again, the situation becomes more pitiable when India is found to export the raw materials and import back the finished products made out of them. Thirdly, India is an importer of cheap manufactured articles. This peculiar feature has been due to the poverty of the people which forces them to consume articles of lower value. The foreigners who are aware of the nature of the Indian market turn out commodities which can be sold with profit at a very low price. But cheapness cannot be regarded as the sole factor. Sale-ability in India depends partly on convenience and suitability. Japan has been in a position to make a headway partly because she can afford to sell commodities which India requires at cheaper prices and partly because she is the buyer of Indian materials and offers facilities for payment by means of appropriate credit arrangements. Fourthly, India deals mainly with gold-using countries while the currency in circulation consists of silver. In case there is an unfavourable balance of trade India cannot

India deals mainly with gold-using countries.

send her own coins (token) in payment of what is due to other countries. This necessitates the maintenance of a fixed par between rupee and sterling and imposes an obligation upon the Reserve Bank of India to sell sterling on demand. Fifthly, Great Britain plays the predominant part in our foreign trade by reason of the preferential tariff scheme. Lastly, India has followed mainly the free trade policy, and manufactured articles of foreign countries can easily enter into India without paying any duty.

Sec 8. The Effect of Surplus Exports on India's Volume of Currency.

We have already seen that India has generally a favourable balance of trade. This favourable balance has one important effect on the currency policy of the Government. Whenever there is a favourable balance of trade the exchange value of Indian currency rises in terms of the currency of debtor country. The foreigners who have imported commodities and for that reason are under obligation to make payment to India offer higher value to the bills drawn on India and in this way raise the rate of exchange so as to reach the specie import point; when such a stage has been reached, the foreigners may approach the exchange banks for purchasing rupee for sterling and these exchange banks in their turn will replenish their rupee reserve by selling sterling to the Reserve Bank of India. When the Reserve Bank purchases sterling it has to release rupees from its vault. In this way the volume of currency in circulation is expanded and the ultimate result of such expansion is rise in prices.

The volume of currency expands.

Sec 9. Different Countries Trading with India and their shares.

India has been trading with many foreign countries but the share which each country has in this trade is not the same. In the import side predominant part is still played by Great Britain in respect of cotton manufactures. The United Kingdom still retains the largest share in the supply of iron, steel and machinery but the United States of America are gradually augmenting her shares in the supply to the detriment of Great Britain and occupies an equally important position in the import trade.

Trade with Great Britain & U. S. A.

In respect of the supply of mineral oils Burma took leading part till she was occupied by Japan and covered as much as 48 per cent of the total imports in 1939-40. In the supply of motor vehicles the share of the United States in 1939-40 rose up to 47·9 as against 15·1 per

cent. in 1913-14, while share of the United Kingdom dwindled from 71·3 per cent to 29·9 per cent. Reviewing the import trade of India as a whole the share of the United Kingdom in 1941-42 was only 21·1 per cent while the shares of the United States of America were 20·0 per cent.

On the export-side the United Kingdom happens to be the principal customer of Indian commodities. She took in 1941-42 as much as 76·3 per cent of the total export of Indian tea. Her share in the total export of raw jute was large enough to come up to 50·4 per cent. The United States of America had also substantial share in the export of raw jute. In respect of export of manufactured jute America had a leading position and claimed as much as 38·6 per cent of the total export. In raw cotton Japan had been the principal customer till July 1941 but with declaration by Great Britain of war with Japan she has yielded place to Great Britain which now claimes 40·6 per cent of the export. In food grains the principal customers are the United Kingdom, China, Iran, and Arabia.

Sec. 10. Articles that enter into Foreign trade.

In this section we shall have a brief account of the articles that India exports. We have already seen that it is one of the peculiar features of India's foreign trade that she exports raw materials and imports finished products. The total value of export of merchandise in 1941-42 was Rs. 237·58 crores and that of imports was Rs. 173·3 crores as compared with corresponding figures of Rs. 189 crores and Rs. 173 crores in 1937-1938.

Exportation of raw materials.

Of the raw materials that India happens to export to foreign countries cotton ranks second in importance covering about 22·57 per cent. of the total export. India produces a huge quantity of this article and supplies the demand of foreigners. In 1941-42 the total value of export was Rs. 17·54 crores. The countries like the United Kingdom, Japan and China have been her principal customers. The untiring activities of the Lancashire Indian Cotton Committee account for substantial increase in the demand from the United Kingdom. These countries are developing their manufacturing industries with the raw materials supplied by India while she remains satisfied with the small price that the exported cotton may fetch. India also exports cotton manufactures. In 1941-42 her export under this head was valued at Rs. 36·1 crores.

Cotton exports.

Jute is another article that India exports in large quantities. India

has, as we all know, a monopoly in the production of Jute. The export consists of both raw and manufactured jute and the value of manufactured jute exceeds that of raw jute. Jute now occupies the first position of exportable commodities and accounts for 24·34 per cent of the total export trade. Jute is mainly exported to countries like England and U. S. A. It is used by those countries in the production of blankets and re-exported to India in this finished form.

Jute.

India exports considerable quantity of food grains. These represent about 4·75 per cent of total export trade of India. They consist of rice, wheat, barley and such other substances. In 1941-42 the total export was valued at Rs. 10·42 crores as compared with Rs. 5·09 crores in 1939-40. There was an all-round increase both in quantity and price of almost all the food grains exported. This improvement is partially due to military causes. The exports of rice are practically confined to Ceylon, Arabia, and African territories while wheat is exported to the United Kingdom, Egypt, Iran and Iraq.

Food grains.

Next come the oil-seeds. These are exported with a view to meeting the demand of foreigners in connection with the preparation of soap and candle. The exportation of this article has the effect of depriving India of large quantity of manures which would otherwise have been available. The total exports amounted in 1941-42 to 740000 tons valued at Rs. 10·43 crores. The principal customers of India so far as these articles are concerned are United Kingdom, Australia and the United States of America.

Oil-seeds.

The foreign demand for tea is increasing every year. The quantity of tea exported in 1941-42 was about 382 million lbs. and its value was about 39·57 crores of rupees. This improvement is due to the operation of the International scheme for the regulation of export of tea and the consequent restriction of production and rise in price. The United Kingdom alone demanded as much as 75 per cent of the total export from India. Among other customers may be mentioned the United States, Ceylon and Iran.

Tea.

Next we come to hides and skins. Both raw and tanned hides are exported ; with regard to the former United States are the principal customers of India while tanned hides are mainly exported to the United Kingdom. In 1941-42 the total value of hides and skins was Rs. 4·73 crores as compared with Rs. 3·08 crores in the preceding year. The export recorded

Hides and skins.

an increase of 3 per cent in quantity and 54 per cent in value. The export of tanned hides witnessed a decrease in quantity but rise in value.

There are certain other articles which India exports to foreign countries. In 1941-42 the export of lac showed an improvement and increased from 594500 cwts to 766400 cwts and was valued at Rs. 492 lakhs. Export of tobacco in 1941-42 was valued at Rs. 2·2 crores.

We have discussed above the chief articles that constitute India's export trade. Now we shall take into consideration the chief articles that are imported by India. The chief articles imported by India may be described thus :—(1) Cotton manufactures, (2) Sugar, (3) Iron and steel, (4) Machinery and mill works, (5) Silk, (6) Liquors, (7) Hardware, (8) Motor vehicles and other articles.

(1) *Cotton manufactures :*—Of the imported articles cotton goods occupy a pre-eminent position. The import under this head consists partly of cotton manufactures and partly of twist and yarns. The Indian mills once used foreign yarns in large quantities and in consequence, the import of this item increased very rapidly. The cotton yarns are mainly supplied by the United Kingdom. Before the war Japan had an increasing share.

Cotton manufactures rank first.

In 1941-42 the import of cotton witnessed a substantial decline in quantity and value, the total value of cotton manufactures being Rs. 6·79 crores as compared with Rs. 11·35 crores in 1940-41 and Rs. 34·8 crores in 1932-33. In the same year India imported twist and yarn of the value of Rs. 1·24 crores. The decline in the import was due partly to war conditions and partly to increased output of Indian mills.

(2) *Sugar :*—India produces huge quantity of this article and at the same time it is found to import large quantities of cane sugar from Java and Mauritius. In recent years there has been a substantial decline in the import in view of the imposition of protective duty on foreign sugar and the phenomenal growth of Indian sugar industry may be said to be at the root of this fall in import. In the year 1938-39 the curtailment of home production had led to substantial rise in price and as a result of this the import of foreign sugar advanced from 22000 tons valued at Rs. 35 lakhs in 1937-38 to 55000 tons valued at Rs. 63½ lakhs, Java contributing as much as 91 per cent of the total import. In 1941-42 the import improved in quantity and value. The total value of sugar imported was Rs. 108 lakhs.

(3) *Machinery and mill-works :*—India has to depend mainly

upon foreign countries for the supply of machinery and mill-works. If the foreign countries withhold their supply of these materials the Indian industries will come to a stand-still. Of the several countries that make their contribution in this respect England has the largest share. Its share is as large as 83 p. c. of the total imports. Imports of machinery and mill-works are increasing gradually with the growth of Indian industries. The year 1938-39 witnessed an increase in the imports of textile and electrical machinery and the value of this import came up to Rs. 19·04 crores. Owing to the last war the import declined in value in 1941-42. The value came down to Rs. 13·73 crores.

(4) *Silk* :—India's import under this head consists partly of raw silk and partly of finished silk goods. The raw silk is imported mainly from China and Hongkong and the silk manufactures are supplied by Japan, China and Hongkong. The last war has deprived India of the Japanese source. In 1941-42 the import declined to Rs. 1·49 crores in value as against Rs. 1·72 crores in 1940-41.

(5) *Liquors* :—In 1941-42 India imported wines and spirits to the value of about Rs. 2·65 crores. The United Kingdom was the largest supplier of liquors. Other countries which have share in the total contribution are China, South Africa and Australia. In 1940-41 the import of liquor was valued at Rs. 2 crores.

(6) *Hardware* :—The articles that are included under this heading are generally supplied by the United Kingdom, America and China. In 1941-42 the value of the import fell to Rs. 2·18 as compared with Rs. 2·07 crores in 1940-41. The contribution of U. S. A. covered as much as 40 per cent of the total import.

(7) *Raw and Manufactured wool* :—Imports of raw and manufactured wool showed a marked improvement in 1941-42 and were valued at Rs. 4·70 crores as against Rs. 4·15 crores in 1937-38. The share of the United Kingdom in this import increased substantially while that of Australia declined.

(8) *Paper and Pasteboard* :—The recent years have witnessed a decline in the import on account of cessation of supply from Norway, Sweden, Netherland, Japan, Germany and Austria. The only foreign sources which India can now tap are the United Kingdom, Canada and U.S.A. The contribution of U.S.A. covered in 1941-42 as much as 45·5 per cent of the total import of 1·3 million cwts. The value of the total import was Rs. 3·53 crores in the same year.

Other articles that India happens to import from foreign countries

include grains, flour, artificial silk, rubber manufactures, drugs and medicines and stationery, salt, glassware and earthenware. The value of imported salt was Rs. 98 lakhs in 1941-42. Aden and Egypt were the principal contributors. The imports of rubber which came principally from U. S. A. and the United Kingdom were valued at Rs. 1·55 crores in 1941-42.

During the war time India witnessed considerable changes in the composition of her external trade. The ordinary predominance of raw materials on the export side dwindled ; the Indian manufactures came to figure prominently and were valued at Rs. 95·2 crores in 1942-3 as against Rs. 52·5 crores in 1938-9. This predominance of manufactured articles on export side was principally due to the inability of the western countries to make their normal contribution in response to the demand for manufactures in the Middle East.

In the same way India happened to import more raw materials from foreign countries. The foreign manufactures figured less prominently on the import side on account of the shortage in supply, difficulty in shipping and reservation and control of foreign exchange for the purchase of war materials. The raw materials which India imported in large quantities included the Egyptian cotton and raw wool, dyes and colours and oils. There was also a substantial increase in the export of foodstuff and this created panic in the country and accounted for scarcity of food supply in the country.

(1) A Table containing a description of the Export trade of India :—

In lakhs of rupees

......	1939-40	1941-42	Increased (+) or Decrease (−) in 1941-42	Percentage of the total exports in 1941-42
Cotton raw and waste...	3104	1754	−1350	7·38
Cotton manufactures	857	3610	+2753	15·19
Jute raw	1983	1042	−941	4·38
,, manufactures	4872	5389	+517	22·68
Tea	2631	3957	+1326	16·66
Grain, pulse and flour	509	1042	+533	4·39

Seeds (including oil)	1190	1050	−140	4·42
Metal and ores	311	292	−19	1·29
Leather	769	563	−206	2·54
Hides and Skins ...	411	473	+62	2·01
Tobacco	252	220	−32	·93
Other articles	3503	4366	+863	11·13
Total	20392	23758	3366	100

(2) A Table showing the character of the Import trade of India :—

In lakhs of rupees

......	1939-40	1941-42	Increase (+) or decrease (−) in 1941-42	Percentage on total imports in 1941-42
Cotton and cotton goods ...	2210	2213	+3	12·77
Machinery and mill works ...	1537	1372	−165	7·41
Oils ...	263	256	−7	1·46
Silk ...	182	171	−11	·86
Artificial silk ...	458	348	−10	2·01
Hardware ...	226	218	−8	1·26
Paper and pasteboard...	345	355	+10	2·05
Sugar ...	332	108	−24	·62
Tobacco ...	116	251	+35	1·45
Salt ...	61	98	+37	·57
Other articles ...	10799	11939	+1140	69·54
Total	16529	17329	+800	100

(3) A Table showing the shares of different countries in India's Foreign Trade :—

Import trade	1913-14	1922-23	1924-25	1941-42
United Kingdom ...	23	22·4	25·5	21·1
Germany ...	11	7·2	7·1	... ...
Japan ...	9·1	13	14	6·8
U. S. of America ...	8·7	11·2	8·4	20·0
Belgium ...	4·8	3	3·9	... ...
Iran, Arabia, etc. ...	... ...	... ...	... ...	4·4
Java ...	... ...	... ...	... ...	1·1
Other countries ...	40·7	40·6	39	46·6

Export trade	1913-14	1922-23	1924-25	1941-42
United Kingdom ...	64·1	60·2	54·1	32·3
Germany ...	6·9	5·1	6·3	... ...
Japan ...	2·6	6·1	6·9	2·4
U. S. of America ...	2·6	5·8	5·7	19·6
Belgium ...	2·2	2·7	2·7	... ...
Strait Settlement ...	1·9	1·9	2	1·8
Australia ...	... ...	... ...	... ...	5·2
Other countries ...	19·7	18·2	22·3	37·1

Sec. 11. Condition of India's Entrepot trade.

Entrepot trade means the re-export trade. India is found to export some articles which she imports from another country. She can conveniently carry on this trade because she is situated in the centre of the eastern hemisphere. The trade between the far east and the west is carried on through India. Thus India imports cotton textiles from the United Kingdom and exports the same to Persia. Raw skins and wools are imported from the frontiers of India and are exported to the western countries. The re-export trade of India is gradually declining. In 1932-33 the value of this trade amounted to Rs. 3·22 crores as compared with Rs. 18·04 crores in 1940-41. This decline has been due to the establishment of direct trade connection between different countries. The United Kingdom occupies the pre-eminent position even in this trade, her share being 30 per cent of the total trade. In recent times this trade has expanded considerably. In 1941-42 it amounted to Rs. 15·3 crores.

Sec. 12. The Stability of the Rate of Exchange : its Connection with Foreign trade.

India's connection with gold-using countries.

India has a peculiar type of currency in circulation. It has since the closure of the mint a token currency which is of unlimited legal tender but the foreigners are immune from the jurisdiction of British Courts ; hence the Government undertook from the very moment the system was introduced in India, the responsibility of maintaining the exchange rate and providing the people with gold at a certain rate when it would be demanded for payment in foreign countries. Such a peculiar currency system has been introduced with a view to avoiding the difficulties that followed from the constant fluctuation of the exchange value of silver standard currency with reference to the gold currency. The Government found that constant fluctuation of exchange value of the rupee was not only prejudicial to the interest of the Government but also hampered the progress of India's foreign trade ; these and similar other difficulties forced the Government to introduce the Gold Exchange standard system.

We shall now consider how the instability of the rate of exchange affects the progress of foreign trade. The foreign trade is carried on through exporters and importers. The latter will render their services to the community so long as they get their proper remuneration. The exporters will purchase commodities in terms of rupee and sell them in foreign countries in terms of their currency. The sale proceeds

will then be converted into the currency of India. If the rate of exchange is not stable they cannot anticipate beforehand the amount of profit that they may derive out of the transaction. If the rate of exchange is in favour of India or in other words if the exchange value of the rupee rises in terms of the gold currency and goes on rising the exporter who carries on his business during that time is sure to incur a heavy loss because every rise in the value of rupee will bring him fewer rupees for the articles sold in foreign currency. Thus a rising rate of exchange is prejudicial to the interest of exporters and hampers the export trade of India. Similarly, the falling rate of exchange will affect the progress of international trade inasmuch as every such fall will be in conflict with the interest of importers by adding to their debts in foreign countries. From what has been said above it follows as a logical conclusion that maintenance of the rate of exchange is absolutely necessary so long as the peculiar currency system of India is retained by the government. It is interesting to refer to the report of the Fowler Committee so far as it throws light upon this point :—"Not only will the stability of exchange with the greater commercial countries of the world tend to promote her existing trade but also there is every reason to anticipate that with the growth of confidence in a stable exchange capital will be encouraged to flow freely into India for the further development of great natural resources.'

Instability of exchange-rate hampers it.

The necessity of maintaining the ratio.

Sec. 13. Indo-Japanese Agreement.

The commercial relation between India and Japan is now governed by a new Protocol which came into force in March 1937. This Protocol was preceded by the original protocol signed in 1934. This latter commercial agreement introduced a Quota System which allowed Japan to send a fixed number of yards of piece-goods in return for the purchase of a fixed number of cotton bales. According to this agreement Japan was to take raw cotton from India to the extent of 1 million bales per year and in return India was to import cotton piece-goods to the extent of 325 million yards. The import of Japanese piece-goods could not exceed 400 million yards in case Japan purchased $1\frac{1}{2}$ million bales of Indian cotton. If Japanese purchase of cotton fell short of the above minimum quota India was entitled to reduce her purchase of cotton goods at the prescribed ratio—the ratio being 2 million yards of cotton piece-goods =10 thousand bales of raw cotton. Irrespective of the purchase of raw cotton Japan was allowed to export 125 million yards

The quota system.

of cotton piece-goods to India every year. The agreement also provided for the maximum rates to be imposed by the Government of India in customs on Japanese cotton goods. This system ensured an export market for cotton to the advantage of the consumers and cultivators of cotton and at the same time avoided that steady disintegration which is the outcome of currency depreciation. Japan also gained much on account of the reduction of the customs duty from 75 per cent to 50 per cent. The operation of the system brought to light the following defects.

Criticism of the Agreement.

(1) The system of measuring imports of piece-goods from Japan in terms of linear yardage threw open the door for evasion by making it posssible for the Japanese manufacturers who were shipping the standard widths of 25-6″ to 28″ to double their quota allowance by manufacturing their goods measuring 52″ in width with two selvedges in the centre separated by small space which would enable the clothes to be divided readily into two pieces. This difficulty could be removed if the imports were measured in terms of square yardage. (2) The quota did not include artificial silk piece-goods, silk manufactures and synthetic imports like fibre. (3) Considerable evasion was also possible through Afganisthan and Indian States. (4) The policy did not take into consideration the interests of small industries like soap, potteries, silk, hosiery, glassware, etc. which were feeling the competition of cheap Japanese goods.

It was hoped that these glaring defects would be remedied when the life of the agreement would expire on 31st March, 1937 and a new agreement would be substituted in its place ; but this hope did not materialise as the new agreement which came into force on 12th April, 1937 failed to remove the inherent defects. The notable changes of this new agreement are :—

The new agreement.

(i) Reduction of the basic quota for Japanese piece-goods from 325 million yards to 283 million yards against 1 million bales of Indian raw cotton ; (ii) Reduction in the maximum quota from 400 million yards to 385 million yards. It should be remembered that this reduction in the quota, though apparently favourable to Indian interest does not affect Japanese interest partly because the retention of the old linear measurement allows Japan to double the quota by supplying cloth of greater width and partly because the separation of Burma under the new constitution has enabled Japan to make a new agreement with Burma for extra sale of piece-goods. Again, this agreement does not restrict the importation of Japanese silk goods which in spite of

heavy import duties have proved a menace to the Indian silk industries. Japan is also at liberty to export in any quantity finished cotton products like shirts, handkerchiefs and the agreement does not in any way restrict their entry into India. The agreement is not comprehensive enough to protect the interests of many other infant industries which are now groaning under the Japanese exchange dumping.

This Indo-Japanese Trade Protocol came to an end on the 31st March, 1940. Since the declaration of war by Japan India ceased to have any commercial relation with Japan.

Sec. 14. Mody-Lees Pact : Indo-British Trade Agreement : Simla talks.

The prosperity of the Japanese cotton industry and the conclusion of a trade agreement between Japan and India threatened a loss of market in India for Lancashire goods. This apprehension of loss of Indian market necessitated an adjustment of commercial relation between Lancashire and Bombay, an important centre of the cotton industry in India. Sir William Clare Lees came to India to settle the matter with the Bombay mill-owners who were represented by H.P. Mody, the then President of the Bombay-Mill-owners' Association. Hence the agreement is popularly known as Mody-Lees Pact. This Pact which was signed on the 6th October, 1933 was to remain in force till 31st December, 1935. The pact emphasized the need of greater protection against foreign goods and wanted to show preference to British imports by charging a lower duty on British yarns and piece-goods. It was also agreed that the surcharges imposed upon British imports should be withdrawn as soon as the financial position of the Government improved. In exchange of these substantial preferences Lancashire agreed to find out all possible means for increasing the demand for Indian raw cotton in Lancashire Textile industry and to secure purchasers for Indian cotton piece-goods in over-sea markets. The pact could not attract the support of the Indian Public in spite of the earnest efforts of the Government to eulogize its merits ; but the ruling authorities in India did not attach any importance to the criticism levelled against the Pact and gave effect to it by passing the Indian Tariff Amendment Act, 1934, which reduced the scale of duties imposed upon British cotton goods.

Why the Pact could not command support.

Next came the Indo-British Trade Agreement (signed on 9th January, 1935) which accepted in toto the principle of Indo-British co-operation as enunciated by the Mody-Lees Pact and emphasized at the same time the need for reduction of duties on British cotton piece-goods

to 20 per cent *ad valorem* as recommended by the Tariff Board. His Majesty's Government recognised the right of India to impose protective duties for the protection of Indian industries as well as the right of the Government to impose surcharges for revenue purposes but the amount of protective duty should be fixed after giving full opportunities to the British commercial interest to file their objections, if any, and in no case should such duty be allowed to exceed the rate which would become necessary to equate the prices of British goods to the fair selling prices of the corresponding Indian goods. This agreement could not bring peace in India and evoked public criticism. It was contended that far from extending any fiscal autonomy the agreement strengthened the grip of British interests over India's fiscal policy by recognising the right of rival British Industries to present their case at the time of imposition of protective duties. Again, by virtue of this agreement Great Britain secured extensive market for her goods in India while India had to remain satisfied with vague promises and assurances. The agreement would result in diversion of the natural tendency of foreign trade and destroy foreign market for Indian goods.

Indo-British Trade Agreement.

In recent times the question of further reducing the duties on Lancashire piece-goods figured prominently in the Textile Negotiation at Simla between the Lancashire delegation headed by Mr. A. D. Campbell and the Indian non-official advisers led by Sir Purshottamdas Thakurdas. In the textile talk Lancashire delegation wanted to have in India a guaranteed market for Lancashire cotton piece-goods for at least double the quantity of goods then imported and recommended for that purpose imposition of an elastic scale of duties varying from $17\frac{1}{4}$ per cent to $7\frac{1}{2}$ per cent. As regards the purchase of Indian cotton the said delegation was prepared to give only a vague assurance. The Indian non-official advisers were shrewd enough to understand the motive behind this offer and could not agree to accept the same. Simla talk thus failed to settle matters. This was followed by a revised offer made by the British Board of Trade which proposed a reduction of the existing duty to 15 per cent and an import quota of 500 million yards maximum and 350 million yards minimum for Lancashire. As regards the purchase of Indian cotton, this Board could not give any guarantee. This offer had the same fate and could not command the confidence of the non-official Indian advisers partly because India cannot afford to sell her long staple cotton to Great Britain in view of the increasing local demand and partly because the reduction of import duty on British goods will prove a menace to the cotton industry of India.

15. Policy of Bilateral Trade Agreement.

In modern times we find an anxiety among commercial nations to enter into bilateral trade agreements. This anxiety is particularly marked in Europe where two types of such agreement—(i) Clearing and (ii) Barter agreements are to be found. The former aims at securing an exact balance of exports and imports without any reference to the particular commodities to be exported and imported. The latter agreements insist upon direct exchange of goods thus dispensing with the necessity of devising means of payment.

In India the question of bilateral agreements has come into prominence in view of the restrictions which many foreign countries have imposed on the entry of Indian goods. India can ill afford to lose her extensive foreign market and must come to terms by entering into bilateral trade agreements. The Legislative Assembly which is a representative body also voted in favour of Mr. Jinnah's amendment for having such bilateral trade treaties concluded with foreign countries. Again, India has already made bilateral agreements with her two important customers—Great Britain and Japan—and it is quite reasonable that similar agreements should be forthwith arrived at with her other customers—Germany, Italy, Turkey, the United States of America—in order to find a profitable market for her goods.

As against this policy of bilateral trade agreements it is argued that conclusion of such bilateral treaties will go to reduce India's export to countries which are now according the most-favoured-nation treatment to her. Again, India under the present state of things must endeavour to have a favourable balance of trade but the policy of bilateral agreement will surely lead to extinction of such balance although it may increase the total volume of trade. India will also lose a great deal in making bilateral treaties with countries which want to restrict their imports because a reluctant purchaser seldom offers a fair price. Sometimes rival suppliers will compete with one another in selling commodities and this will go to reduce India to the position of a weaker party to the contract.

Sec. 16. Indo-Burma Trade.

Since the separation of Burma from India under the Government of India Act, 1935 trade relation between Burma and India came to be governed by India and Burma (Trade Regulation) order 1937. This order was substituted by Trade Agreement concluded between the two countries in April,1941. Under this agreement each party had to accord preferential treatment to the other by allowing a preference of not less than 10 per cent over goods of British origin and of not less than

15 per cent over goods of other countries. Certain goods, again were exempted from duty in each country. Burma had to allow Indian paper, coir and glass wares to enter Burma without charging any duty while India had to accord the same treatment to wood, timber, iron and steel of Burma. Indian cotton piecegoods were to enjoy preference of $7\frac{1}{2}$ per cent over British goods. As Burma was recently occupied by Japan she bore no tradal relation with India for the last five years. With the fall of Japan Indo-Burma trade has revived.

Sec. 17. India's Foreign trade by Land.

By the foreign trade of India we have been accustomed to mean the sea-borne trade. This is due to the fact that her trade with the foreign countries by land was too small to deserve notice; but in recent times her commerce with the adjoining countries beyond the frontiers has assumed some importance and cannot be ignored. The principal countries with which such trade by land is carried on are Nepal, Shan States, Afganistan, Persia, Tibet, Western China and Siam. From Nepal India is seen to import rice, ghee, cattle and goats while the Shan States of Burma provide her with a large supply of horses. A large quantity of fruits and vegetables is imported every year from Afganistan and raw wool comes from Tibet. The countries mentioned above are also the principal recipients of India's export. The exports chiefly consist of cotton goods, cotton yarn, sugar, iron and steel, petroleum, salt, tobacco and silk goods. This portion of India's foreign trade is expanding every year. The value of the import so far as the frontier trade was concerned was approximately Rs. 23 crores in 1924-25 as against Rs. 18 crores (approximately) in 1923-24. The values of export trade in the above two years were about Rs. 19 crores and Rs. 16 crores respectively.

The countries with which foreign trade is conducted by land.

The extension of the Indian Railway system up to Jamrud, Landi Kotal and Landi Khana has facilitated the transfrontier trade to a great extent.

Sec. 18. The Spread of Commercial Intelligence.

A country must have an up-to date information regarding the efficient methods of production and the best market for her products; otherwise she will fail to make any progress in the sphere of trade and industry. The commercial progress of India is thus connected with the machinery for the spread of commercial intelligence. The need for such a machinery was fully appreciated as early as 1905 when the Commercial Intelligence Department was

Commercial progress of India.

created. The Department is engaged in giving publicity to the commercial information and has started the weekly organ known as the Indian Trade Journal. The Department has been placed under the charge of Director-General of Commercial Intelligence and Statistics. This Department has got two functions to perform, *viz.*, (i) collection & dissemination of information connected with over-seas trade, (ii) compilation and publication of All-India Statistics. The Department maintains the Commercial Library and Reading Room where many important Commercial Journals are to be found. There is an Indian Trade Commissioner in London who is assisted by the Trade Publicity Officer in placing Indian goods in all important exhibitions on the continent; but satisfactory results have not been achieved as the agency in London does not provide India with useful information regarding foreign markets for Indian goods. To promote the interest of Indian trade it is desirable that Indian trade agencies should be established in different parts of the world. The Government of India has taken the matter in hand and has already appointed Trade Commissioners one each at New York, Hamburg, Milan, Alexandria, Mombasa, Osaka and Durban. Better results can be expected if arrangement is made for organising trade missions consisting of Indian businessmen who will visit different parts of the world to explore the possibilities of foreign market for Indian goods.

A Central Statistical Research Bureau has been associated with the Department of Intelligence and placed under the charge of Economic Adviser to the the Government of India. The Bureau publishes the Review of the Trade of India and the monthly survey of business condition in India.

Sec. 19. How the Foreign Trade is Financed.

As in the internal trade the purchaser of a commodity must have to pay a price for it to the seller, so also in the case of foreign trade purchaser, *viz.*, the importer must make payment to the exporter in a foreign country; but the method of making payment is not and sometimes cannot be the same in both the cases. True it is that an importer of a country having gold currency in circulation may pay the price of the imported commodity in terms of local currency to the exporting country and the latter will not raise any objection against such method of payment but the situation becomes complicated when the trade is between countries having different standards of value. Such a complexity arises when India is connected with a gold-using country by commerce. When the latter wishes to make payment in her local currency India will not probably

How the Indian imposter pays the price of imported commodities.

make any objection but it is quite certain that the gold-using country will not accept payment in the token coins of India. Again, even if India happened to have gold standard with gold currency still we would find that the foreign obligations would not be liquidated by the actual transportation of specie except under emergent circumstances. There are other ways of making payments which are more convenient and for that reason are generally adopted by all countries in discharging the international obligation.

The foreign payment are generally made through the medium of Exchange Banks. These banks exist mainly for financing the foreign trade of countries. They have their offices in foreign countries and can, therefore, easily realise the money that will be due to one country from another. Thus if an Indian merchant exports commodities to an English merchant he is entitled to draw a bill of exchange upon the importer. After this has been done he will have to wait generally for three months unless it is a bill at sight. The exporter may be in urgent need of fund and cannot wait. In such a case the exchange bank will come to his help, discount the bill of exchange and provide him with funds. This the bank can easily do with profit because it has an office in England to which the discounted bill can be sent for the realisation of the amount due either from the importer himself or from his bank.

The services rendered by the Exchange Banks.

In the same manner the English exporter can realise what is due to him from an Indian importer through an exchange bank having offices both in London and in India.

Let us now consider the problem from the stand-point of the importer. He has purchased commodities from a foreign merchant and is a debtor to the extent of the purchase-money. How would he repay his debt ? He is an Indian having sufficient amount of rupees in his stock but his creditor will not acept payment in silver tokens. He however, is not in a quite helpless position. There are the exchange banks to give necessary aid in overcoming the difficulties under which he finds himself. He can conveniently approach any of these banks having an office in the foreign country and inform it of his eagerness to purchase a bill drawn on such office. The bank accordingly will sell a bill at a certain rate. The bill will then be sent to the foreign exporter who will realise the amount either from the local office of the bank that has issued it or if the bill has been drawn upon another bank, from that bank. This method is more convenient inasmuch as it avoids the expense and risk involved in remitting actual

The foreigners will not accept silver rupees.

specie to the foreign countries. The exchange banks will be found to sell bills in response to the demand for remittances to foreign countries. Similarly, the English importer who wishes to repay his debt to the Indian exporter will approach an English bank for a bill drawn upon an Indian bank. In this manner the relation of creditor and debtor that exists between exporter and importer is shifted to the exchange banks. The Indian exchange banks will be considered as debtor to the extent of the amount represented on bills issued upon English banks and the latter will likewise, be debtor for the bills drawn by them upon exchange banks of India. These debts and counter-debts will be mutually adjusted and if any surplus is due to any bank it will be paid by the bank by which it is due. Now the question arises as to the method of paying the balance. Would the balance be paid by the actual transportation of specie from one bank to another? The answer is in the negative. When the balance is in favour of an Indian bank it will be remitted by sending sterlings which can be converted into rupees by selling them to the Reserve Bank of India which is now under an obligation to purchase sterling at a rate not higher than 1*s.* $6\frac{3}{16}d.$ In the same way any balance against India can be repaid by purchasing sterling from the Reserve Bank of India and sending the same in liquidation of the balance.

What we have discussed above represents the procedure by which payment between India and England are made; but if the foreign trade of India is studied it will be clear that India has commercial dealings with countries other than England. Such being the case the question of making payment to foreign countries often arises; the best method of making such payment is to purchase from an exchange bank in India bills drawn upon its own office in the foreign country or if there is no such office upon another bank with which the former bank has business connection.

Sec. 20. Exchange Control and the Financing of Foreign trade during the Second Great War'

The present war has necessitated certain restrictions and control over the mechanism of foreign payment. The sterling area has been demarcated and within this area payments and remittances know no restriction while all transactions with countries outside the sterling area are controlled through banks authorised to deal in foreign exchange. An Exchange Control Department has been created in the Reserve Bank of India. This Department exercises rigid control over foreign exchange by prohibiting remittances for payment of imports unless the importer obtained an import license.

Restriction and control over mechanism.

This system would go to restrict import with close reference to the supply of foreign exchange and of the shipping accommodation. Export was regulated with a view to forbid the entry of Indian goods into foreign country and at the same time to make certain essential articles available for internal consumption and for aiding the allied countries in the successful prosecution of war. An Empire scheme for the control of foreign exchange proceeds of certain exports to countries with hard currencies was inaugurated in 1940. The proceeds of the exports were to be utilised in a manner prescribed by the Reserve Bank of India and the exporters must obtain a certificate to that effect before the goods were allowed to be exported.

So far as the trade with the United States of America is concerned a novel feature is the introduction of Lend-lease procedure under which certain commodities *e. g.* oil, machinery, are being imported into India without payment of price in terms of dollars.

Sec. 21. Traders in India : their Organisations.

A large part of the over-seas trade is still in the hands of British traders and the financing of such trade is almost entirely in the hands of the exchange banks, the Imperial Bank and the European-managed joint-stock banks.

"Managing agent" system.

The European firms engaged in Indian trade are organised on what is known as the managing agent system according to which management of the Indian firms or companies formed in Europe or elsewhere is made over to well-reputed concerns. These managing agents render valuable service by diligent discharge of duties, but the system of management is attacked on the ground of undue concentration of control and lack of initiative and evils arising out of a possible clash between the interests of various companies whose affairs may be in the hands of the same firm of managing agent. In modern times we find a tendency towards organised effort in the sphere of trade and commerce. We find various commercial organisations for safeguarding the interests of the various sections of the trading community. There are the Stock Exchanges, Chambers of Commerce, Millowners' Associations, Planters' Associations, Associations of Retailers. Of these associations the Associated Chamber of Commerce was formed by European merchants with a view to safeguarding thier interest. With the increasing participation of the Indians in commerce the Indian Chamber of Commerce was set up in November, 1925 and various Indian Associations of Commerce have been affiliated with the chamber. Another premier institution of the kind

is Bengal National Chamber of Commerce founded in 1887. To promote concerted action a Federation of Indian Chambers of Commerce and Industry has been formed in pursuance of the suggestion of the Commercial Congress. The Federation has more than 60 Chambers of Commerce and Commercial Associations affiliated to it and is recognised by the Central Government as the premier organisation of the Industrial and Commercial interests in India.

Sec. 22. Period of Trade Depression: Causes of trade depression.

In 1929 a serious world-wide trade depression set in and affected the position of Indian trade. The principal causes of this trade depression are : (i) Over-production of raw materials and finished products resulting in an unprecedented fall in prices, (ii) Shortage of gold stock in the reserves of Central Banks and consequent adoption of deflationary policy, and the resulting force of foreigu competition, (iii) Artificial raising of the exchange-value of the rupee, (iv) Political unrest in India and in several other conntries in the world, (v) The enormous losses suffered by investors when the speculative boom in the stock markets in the United States suddenly subsided, (vi) The liquidation of companies and firms which were started during the post-war boom creating panic in the money-market and aggravating the situation.

Causes of trade depression.

India whose economic prosperity is dependent upon the value of agricultural produce in foreign countries has failed to escape the serious effects of this world-wide slump. The demand for India's agricultural produce in foreign markets has fallen greatly on account of the curtailment in the scale of production of foreign manufactures. This has resulted in a disastrous fall in the prices of exported commodities. The prices of imported articles have witnessed a sympathetic fall but the fall is much greater in the case of exported commodities. The Calcutta wholesale Price Index number showed a fall of 47 per cent, in the case of exported commodities and of 20 per cent in the case of imported commodities by September, 1931, As a result of this acute depression the export trade dwindled in 1932-33 to Rs. 136 crores and the visible balance came down to Rs. 3 crores.

Sec. 23. Recent Economic Recovery and India's trade.

The world depression proved a menace to economic prosperity and serious attempts were made for recovery in the economic position by means of devaluation of currency and cheap money condition. There was also a move for stablization of world currencies but this could not succeed on account of the unfavourable attitude of the United States of

America. Each country, however, began to take steps for internal re-construction and for putting its currency system on a sound footing. Heavy industries made steady progress on account of an unprecedented increase in the military expenditure.

Recent Economic recovery.

So far as India was concerned her trade was roughly stimulated by the introduction of Imperial Preference Scheme as formulated by the Ottawa Agreement and by the Indo-Japanese Trade Agreement and by the Mody-Lees Pact. These agreements were in a way responsible for the recovery of India's external trade at the begining of the year 1934-35. The years that followed were marked by further progress which was accentuated by the world economic recovery which manifested itself in 1939. The regulation of production, the collapse of the gold block and the devaluation of currencies in 1936 went a great way in raising the prices of commodities. As a result of this economic recovery the total volume of India's foreign trade came to be valued at Rs. 542 crores in 1936-37.

The economic recovery was impeded for a short period by the feeling of nervousness which was particularly strong in America. There was unfounded apprehension for the shortage of raw materials. The gold scares in the United States and the restriction on the supply of credit made the position of trade worse. This depression continued till the end of 1938. This economic recession had its worst effect on prices of agricultural commodities in India. The downward tendency of prices was aggravated by the Sino-Japanese war which reduced the demand for cotton from Japan. The import trade of India also witnessed substantial reduction on account of the short purse of the agriculturist.

The tradal position improved substantially with the commencement of war in September, 1939. The demand for Indian commodities from the Allied and Empire countries increased so much that in spite of prohibition of trade with the enemy countries and restriction imposed on the export of a large number of articles, India has been enjoying a highly favourable balance of trade. It should be noted in this connection that this favourable position has been partly due to imposition of restriction on imports of a large number of articles. In 1939-40 the balance of trade was in favour of India to the extent of of Rs. 79·9 lakhs. The year that followed witnessed considerable decline in the export trade owing to the loss of continental market. There was a temporary revival in 1941-42 on account of the heavy demand for Indian commodities from the Allied countries. In 1942-43 the export trade again declined owing to the Japanese occupation of Burma and practical closing of the Pacific.

Sec. 24. Loss of Continental market. How to Extend Export trade : Gregory-Meek Missions : Export Advisory Council.

The establishment of German authority over the greater part of the continental Europe meant considerable loss to India in so far as her export trade was concerned. Countries under the occupation and control of Germany could not trade with India. Other countries which remained neutral had their commerce unduly impeded on account of U-boat menace, shortage of shipping space and Japan's menace to pacific routes. The loss which was more than Rs. 30 crores annually have been partially compensated by an increase on the export trade with the Allied and the Empire Countries. The Indian politicians view with grave concern this loss of continental market which had an impotant bearing on the rural economy. The economic position of the people did not improve unless new internal or external markets were developed to deal with the exportable surplus. The Government of India deputed in July, 1940, Dr. Gregory and Sir David Meek to visit the United States of America with a view to exploring the possibilities of developing the American market for Indian goods.

The Report of the Mission could not inspire hope and confidence as it revealed that America could not be an attactive market for Indian goods save and except a few products required for the manufacture of armament. We must therefore find out alternative markets either in Great Britain and in other non-Empire countries. Japan was an important customer but since the declaration of war with Japan India lost this important market. Export to China also received a setback on account of the occupation of Burma by Japan. Japanese conquest was in a way responsible for closing other important markets in Indo-China, Thailand, East Indies, Malaya and Burma. An Export Advisory Council was set up to discover alternative markets for Indian commodities and to promote expansion of Indian manufacture. If these two attempts failed, India must take to crop-planning or crop-restriction schemes in the last resort.

Sec 25. The Last Great War and India's Foreign trade.

The last great war had an important bearing on the foreign trade of India. With the phenomenal success of the Nazi Germany in the early stages of the war India came to lose many markets in continental Europe. The success of Japan in the eastern theatres of war closed several other markets. The net result was a substantial decline in the volume of trade and the producers of raw matrials suffered greatly by reason of a marked fall in the demand for their products. There were a few friendly markets left for the sale of India's raw materials and these friendly countries failed to carry on their normal trade

on account of enemy U-boat menace, want of shipping accommodation, official control over exports and imports, exchange control, the system of licensing exports and imports. The war in its initial stages thus witnessed substantial decline in the volume of exports and imports. As the war continued, new problems arose and changed the composition and direction of India's foreign trade. India had to participate in the production of goods needed by the allies for the successful prosecution of war. The import of foreign manufactures declined on account of the pre occupation of the foreigners in warfare. The raw matrials of India were demanded by the manufacturing industries and India started her career as an importer of finished products and the exporter of food stuff and raw materials. The war, again created new market for Indian goods in Australia and the middle East which formerly depended upon western countries for the supply of commodities. U.S.A. also became an important customer of India and developed new tradal relation with her. The share of the United Kingdom in India's foreign trade declined considerably but this loss was adequately compensated by the increase in the volume of trade with other Empire countries. On the whole the foreign trade of India improved and India came to have overwhelmingly favourable balance of trade.

Sec. 26. Lease and Lend operation : how it Affects India.

The last war introduced a novel method of interchange of goods between India and U. S. A. Formerly goods were available in India from U. S. A. on condition of payment of the price of goods in terms of dollar. According to the Lease and Lend System the aids in the form of supply of machine tools and raw materials were extended to India by U. S. A. in consideration of cash payment or payment in kind or property or some direct or indirect benefit which the American President deemed satisfactory. This aid was primarily meant for Great Britain because India was an involuntary agent to carry on war with the enemies of Great Britain. Again, there was no raciprocal agreement between India and U. S. A. India had been receiving the aids for the benefit of Great Britain but she had to supply goods to American forces charged on the Indian Defence Estimate. It was very difficult to estimate the net benefit which India derived under Lease and Lend system. Goods were pouring into India under the above system for the account of China, His Majesty's Government and for India. Goods thus imported may be used for China, England, America and India and it was very difficult to keep an account of the particular use to which these goods were put. If every aid came to India for the protection of the true interest of India, India had nothing to grudge and must remain ever

The object of the Lease and Lend system.

grateful to U. S. A. for the aid which she had been receiving ; but if India had to exhaust her resources in return for the aid at the expense of her starving population, the burden of this un-called-for aid would fall heavily on India ; the statistics of aid when studied in their literal sense would no doubt inspire hope and confidence and prove in clear terms the magnanimity of U. S. A., India received upto 31st. January, 1943 goods of the value of 295 million dollars i. e., over Rs. 100 crores while she had supplied goods to the American forces to the extent of Rs. 24·74 crores.

Sec. 27. Post-War Plan for Foreign Trade.

We have already seen that the last great war effected monumental changes in the composition and direction of India's foreign trade. India has emerged as a creditor country with a huge sterling balances at her disposal and now claims the proud position of an importer of finished goods and exporter of raw materials. India has also established her commercial relation with countries in the middle East and bears an intimate relation with U. S. A. which occupies the foremost position among powerful nations. It is high time for India to draw up a plan which will enable her to retain the proud position in the world trade. The post-war plan must include an extensive programme for Industrialisation which alone can add to her prosperity. Again, there is immense scope for industrial development in view of the huge supply of raw materials and labourers. The huge sterling balance can be profitably utilized by purchasing plant and machinery which India will require to carry on her industrial activities on efficient lines. A pertinent question that arises in this connection is whether India will be compelled to purchase her equipments in the United Kingdom where her Sterling balances lie. The Indian delegates at the Bretton Woods Conference insisted on the multilateral convertibility of India's Sterling Balances but their attempt failed. India therefore must purchase her plant and machinery in the united kingdom at a higher price. Neverthless India must attempt to develop multi-lateral trade exchanges which alone will enable her to buy goods in the cheaper market and sell goods in dear market. To achieve progress in the sphere of manufacturing industries India must study the possibilities of extending new market for her manufactured goods and reduce her cost of production. The government of the country must not remain indifferent and take neccessary steps for protecting the infant industries.

Questions and Answers

(See at the End of Chapter XIV

CHAPTER XIV

FISCAL POLICY OF INDIA

Sec. 1. The Important Bearing of Tariff Policy on the Foreign trade.

The Government of India like other Governments has authority to impose custom duties on articles which are exported from the country and imported into it. The custom duties may be imposed for two distinct purposes. A duty may be levied upon imported commodities in order to derive certain amount of revenue out of such imposition. Sometimes it will be imposed for the purpose of preventing importation of commodities. In this latter case the duty is described as protective duty. The Government of India has generally been guided by the principle of free-trade while imposing duties upon imported articles. We shall consider the effect of this policy on the foreign trade of India and keep ourselves aloof from any question concerning the effect of such policy on industries.

The purposes for which duty is imposed.

The foreign or international trade is based on the principle that nations should so guide their production as to derive the maximum amount of satisfaction. Nature has not favoured every country with equal advantages. Some countries may have advantages for the production of certain commodities while other countries have advantages in other spheres of production. The human endeavour can yield maximum result if each country so adjusts its sphere of activity as to produce only those commodities in the production of which it has comparative advantage over other countries, while depending upon other countries for the supply of other commodities that it requires. If this principle is followed by every country there can be no restriction of trade and the result will be that a spirit of interdependence will prevail among different nations. Under such circumstances the foreign trade of India will reach the highest point. If on the other hand the import trade of India is restricted by the imposition of a heavy protective duty, the other countries will also retaliate with the result that the export trade will fall along with the import trade. The adoption of such policy, though sometimes desirable will have the effect of reducing the foreign trade of India to the prejudice of the present interest of the consumers.

The foreign trade is based on the doctrine of comparative cost.

Sec. 2. The Fiscal Policy : its Connection with Industry.

A protective policy should be adopted for India's interest.

The industry of a country specially of India which is still in her infancy so far as the industrial dovelopment is concerned is greatly influenced by the policy that the Government adopts in regulating the imposition of taxes upon commodities. There are industries in India which cannot now compete freely with the industries of other civilized countries. But they can attain success provided the Government imposes restriction upon commodities that compete with their products. Again, the immediate and temporary loss which may follow from such restriction may be outweighed by a permanent gain which the industries once established will bring to the society. If under such circumstances the Government follows the Laissez-faire principle, the industries which are still infant will surely be driven to the wall and ultimately perish. True it is that the consumers may be benefited by the adoption of such policy but there is no guarantee that the benefit so derived will continue for ever. The present relation of friendship that India may have with other countries may give place to one of hostility with the result that the supply of articles may be stopped. India will then be placed in a very critical position. To avoid these difficulties it is desirable that the Government should regulate its tariff policy so that the articles produced by commercially developed countries may not destroy the infant industries of India.

Sec. 3. A short History of the Tariff policy.

The protective policy.

In this section we shall have a brief review of the policy of the Government since the commencement of the administration of India by the East India Company. The East India Company adopted a policy which was beneficial to the interest of Great Britain at the expense of India. The British goods were freely imported into India and only nominal duty was levied on such imports ; but England did not show the same favour to India during that time and imposed a heavy protective duty with a view to preventing the importation of Indian goods. Her industries were then infant and in consequence, she could not adopt the policy of free trade with profit. Thus British industries aided by the Fiscal policy of Great Britain were stimulated by the Tariff policy of the East India Company inasmuch as the latter imposed only a nominal duty on the import of British goods.

During the Company's rule the market for Indian commodities was restricted both externally and internally. The external restriction was, as we have seen above, due to the policy of protection adopted

by Great Britain and other countries; but for the internal restriction the ruling authority was responsible. The East India Company imposed internal duties of various descriptions and they were so heavy that the industries were forced to reduce their scale of production. These duties were retained by the Government till 1884 when they were aboliseed.

Market restricted.

Let us now turn to study the nature of custom duty. At first the rate of import duty to be paid by British goods was half of what was levied upon other foreign goods but after the mutiny this differential tariff was abolished. The rates of duty imposed upon different commodities were to be changed almost every year and they were meant for securing a large sum of revenue for the Government.

In 1862 the duty imposed upon cotton manufacturers was 5 p. c. *ad valorem* and that levied upon cotton twist and yarns 3½ p. c. The duties continued at that rate till 1874 when the Manchester Chamber of Commerce came forward to protest the imposition of such rates. They represented that the rates were protective in character and for that reason should be abolished. The sudden protest owed its origin to the establishment of several Cotton Mills in Bombay causing in the heart of the Manchester people fear of losing the Indian market. They demanded an immediate abolition of the duties levied on their goods. A committee was appointed in 1874 to consider their grievances and to make necessary recommendation: the Manchester demand however was unanimously rejected by the Committee.

Imposition of Cotton Excise duty.

The new Tariff Act that was passed in 1875 did not abolish the Cotton Duties, but it reduced the general rate of duty. Then came Lord Salisbury whose object was to promote the Manchester interest. He accordingly advised the Governor-General of India to abolish the import duties on cotton goods altogether; but Lord Northbrook, the then Viceroy was bold enough to defend the cause of India and refused to act according to the request of the Secretary of State. Lord Northbrook had to resign and he was succeeded by Lord Lytton who came to India with the prime object of repealing the cotton duties; but for certain unavoidable causes he could not satisfy the Manchester people at once. He had to wait for a few years and in 1879 he fulfilled his object by abolishing the import duties on cotton goods of 30 counts and above. The remaining duties were abolished in 1883. For twelve years that followed the year 1882 the cotton goods were imported into India free from all duties. In 1894 the Government

Abolition of excise duty.

was faced with a deficit and the deficit could not be made up except by re-imposing the cotton import duties. Accordingly in December, 1894 the import duties were imposed on cotton fabrics and yarns to the extent of 5 per cent; but with a view to pacifying the Manchester people the Government had to levy a countervailing excise duty of 5 per cent upon cotton yarns of 20 counts and above produced by Indian Mills. Next came the Cotton Duties Act of 1896 which abolished all duties on yarns but imposed a uniform duty of 3 per cent upon all woven goods whether manfactured by Indian mills or imported Into India.

Imposition of excise duty.

The imposition of cotton excise duty became the subject of severe criticism in India. It affected prejudicially the interest of the Indian mills. An appeal was made to Lord Hardinge for the repeal of such duty in 1916 but the circumstances of the time could not permit such a repeal. Lord Hardinge, however, promised that the Government of India would abolish the duty in near future when thé financial condition of the Government would improve. Then in 1922 the Fiscal Commission recommended the abolition of such duty. Out of respect to Lord Hardinge who solemnly promised the abolition of this duty and in pursuance of the recommendation of the Fiscal Commission the duty was abolished in 1926.

Different duties imposed.

We have given above a brief outline of the fiscal policy of the Government so far as the impostion of cotton duty was concerned. We shall now consider the policy of the Government with reference to a few other important commodities of import. In 1859 the Government was faced with a heavy deficit and levied an import duty of 25 per cent *ad valorem* on all articles of luxury. Next year this duty was reduced to 20 per cent. In 1882 Lord Ripon abolished all import duties except those on salt and liquors but as the Government could not meet its expenditure they were re-imposed in 1894. A nominal duty was imposed on iron and steel but still there were many articles such as coal, railway materials which were exempted from the payment of duty. In 1906 the duties levied upon liquors were raised and in 1908 they were so raised as to reach 9 as. per gallon. In 1910 the duty on silver was raised. During the time of war the general rate of tariff was raised from 5 per cent to $7\frac{1}{2}$ per cent. It was raised again and it reached the highest figure of 15 per cent in 1923. Higher duties were imposed upon certain luxury goods, like motor cars, watches, silk and piece-goods.

In the spring of 1931 and again, in the emergency budget of the

autumn surcharges were imposed on the various schedules. Besides these revenue duties, protective duties were imposed upon steel goods, paper, matches, cotton piece-goods, silver thread and wire, certain heavy chemicals, sugar and wood-pulp on the recommendation of the Tariff Board.

Surcharges.

The latest step in the tariff history of India has been the ratification of the Ottawa Agreement which admits Indian goods at preferential rates in return for the preference to a long list of British manufactures.

Ottawa Agreement.

The year that followed witnessed the passing of Acts which have a far-reaching effect on the tariff policy of India. The Iron and Steel Duties Act, 1934 was passed on the basis of the recommendation of the Tariff Board. This Act made provisions for the imposition of protective duties on certain classes of iron and steel manufactures and at the same time reduced the duties already levied on certain other goods. To make up the loss of revenue which would surely result an excise duty of Rs. 4 per ton was impsed on steel ingots produced in India and the imposition was accompanied with a countervailing customs duty of an equivalent amount imposed on steel ingot imported from foreign country.

Iron and Steel Duties Act, 1934.

The original Tariff Act of 1894 which had already been subjected to numerous amendments was replaced by the Indian Tariff Act, 1934 the schedule appended to which shows the actual rates of duties payable on each article.

Tariff Act of 1934.

Another important tariff measure was the passing of the Indian Tariff (Textile Protection) Amendment Act, 1934 which gave effect to the conclusions of the Tariff Board recommending substantial protection to the cotton textile industry modified in the light of the denunciation of the Indo-Japanese Trade convention of 1904 and the subsequent 'conclusion of a new trade agreement with Japan and of the unofficial agreement between the representatives of the Indian and the United Kingdom taxtile industries. The Act fixed various rates of duties on cotton piece-goods British and non-British and imposed duties on raw silk, silk cocoons and many other articles enumerated in the list contained in the Act.

Indian Tariff Textile amendment Act, 1934.

Two other important Tariff Acts of the year 1934 were the Sugar Excise Duties Act and the Matches Excise Duties Act. These two Acts will be discussed in relevant sections. The year 1935 witnessed the passing of several tariff Acts; of these we may conveniently refer to the Indian Finance Act of 1935 which reduced the import and excise

Finance Act of 1935.

duty on silver bullion and coin to 2 annas per oz. and abolished the excise duty on raw skins.

The Indian Tariff Amendment Act, 1935 replaced the protective duties of Rs. 2 per cwt. on wheat and Rs. 2-8 per cwt. on wheat flour by a uniform duty of Rs. 1-8 per cwt. on both wheat and flour and also imposed a duty of 12 annas on imported broken rice. In 1937 two Tariff Amendment Acts were passed. The first Amendment Act extended for a further period the operation of the existing duty of twelve annas per maund on broken rice and the second Act omits in the First schedule to the Indian Tariff Act, 1934' items No. 10(1) and 11(1) with the result that wheat flour is now subject to the ordinary revenue duty of 25 per cent imposed on flour by item No. 11. The protective duties on Iron and Steel manufactures, sugar, silver thread and wire, wood pulp, paper and cotton and silk manufactures were due to expire on 31st. March, 1942. The protective duties continuation Act 1942 was passed to maintain the existing duties for a further period of two years. The said Act also authorised the continuance of the existing duties on wheat flour for a further period of two years. The Indian Finance Act of 1942 continued at the same rate the duty on salt and altered the excise duties on motor spirit and kerosene. It also provided for an increase by one-fifth of the existing duties on all goods with exceptions.

Tariff Amendment Acts of 1935 and 1937.

Sec. 5. Fiscal Commission : the Tariff Boards.

The economic prosperty of India depends greatly upon the fiscal policy that the Government of India adopts. She is still infant so far as the industrial development is concerned ; and the fiscal policy should be wisely regulated so that the foreigners may not destroy the industries which though infant at present would not remain so in future. It is by prudent regulation of fiscal policy that the Government can protect the industries from foreign competition. This sort of indirect help is much more useful than a direct assistance by a grant of bounty. The Government appreciated the importance of the fiscal policy and appointed a Fiscal Commission for considering the fiscal problem which is of vital importance in a countrv like India. The Commission recommended the creation of a Tariff Board to which the claims of industries for protection should be referred. It laid down certain general condition under which protection should be granted to different industries. The conditions are :—

The conditions laid down by the Fiscal Commission.

(1) The industry must be one which has possibilities of standing the foreign competition in the long run. In other words, it should be such as would not remain infant for ever.

(2) The industry must be such as cannot proceed without protection. The protective duties should not be imposed upon foreign commodities quite indiscriminately. Before imposing such duty the ruling authorities must determine whether protection is urgently demanded by a particular industry. If there is no such necessity the imposition of protective duty will mean an increase in the profit of the business-men ; and neither the consumers nor the country will gain a farthing by such protection. The industries demanding protection must deserve it.

(3) The industry must have certain natural advantages which would at once indicate that it has the greatest chance of success in near future. The success of an industry is intimately connected with the nature of the supply of the agents of production, and the nature of the demand for its product within the country. Hence, industry which has to depend upon another country for the supply of raw materials cannot legitimately demand protection.

It should not however be concluded that the above three conditions must be strictly satisfied before an industry should be protected. The principles laid down by the Commission are general in character and as such do not govern special cases when the national safety may necessitate the development of certain industries. Again, care should be taken not to impose duties upon the supply of raw materials because such a measure will be in contravention of the very principle upon which the policy of protection is based.

The recommendations of the Fiscal Commission were accepted by the Government and the first Tariff Board was appointed in 1923.

The Board acts as an advisory body to the Government and helps the Government in imposing duties in such a manner as will be beneficial to the development of Indian industries. Its function is to consider the claims preferred by various industries for protection and to make necessary recommendation to the Government.

Sec 6 Export Duty : Restriction on the Export of Foodstuff and Raw materials.

Besides the import duties referred to above, the Government has imposed duties on the export of commodities for revenue purposes. In 1859 the various articles that were exported had to pay varying rates of duties. Grain to be exported had to pay a duty at the rate of 2 as. per maund while on indigo was levied a duty of 4 per cent and other articles were charged at the rate of 3 per cent. In 1916-17 a duty was levied upon raw jute to the extent of Rs. 2-4 as. per bale

Rates of Duty on different articles.

of 400 lbs. and that levied upon jute bags, rope, cloth, yarn and twist was Rs. 20 per ton. The duty levied on tea was Re. 1-8 per 100 lbs. This duty on tea was abolished in 1927-28. The export of tea as now charged with a cess the maximum rate of which has been raised by the Indian Tea Cess (Amendment) Act, 1915 from annas eight per hundred pounds to annas twelve per hundred pounds. In 1917-18 the export duty on jute was doubled. In 1913, 15 per cent *ad valorem* duty was imposed upon raw hide. This was subsequently reduced to 5 per cent. The Finance Act of 1919 reduced the export duty on rice from 3 as. to 2 as. 1 pies per maund. One important point that deserves consideration at this stage is whether an export duty should be levied upon food grains. India, we know, is a country that can export foodstuffs and raw materials in exchange for the manufactured goods that she imports. India's contribution in this respect has been as large as to cover about 20 per cent of her total export although he has to pay an export duty at a certain varying rate. Now what is ordinarily the effect of such duty? Since India has not a monopoly in the production of foodstuffs the incidence of this export duty will fall upon her and it will at the same time reduce her export trade.

Effect of export duty on food grains.

On the other hand the price of foodstuffs will fall in India because of the increased supply of it due to the reduction of foreign demand. The agriculturists will suffer greatly because every fall in the prices of foodstuffs will bring them lower income. Investment of capital for the improvement of cultivation of food grains will be discouraged and the cultivators will often choose to raise non-food crops the price of which has not fallen. The poor persons other than cultivators who spend a very insignificant portion of their income in purchasing foreign commodities will no doubt be benefited because they will be given an opportunity of purchasing foodstuffs at a lower price but this gain will be at the expense of the cultivators whose loss from the export duty on wheat alone has been calculated at Rs. 16 crores.

The import of foreign articles will be reduced inasmuch as it is the the export that pays for the import and in consequence, people who spend a large percentage of their income in purchasing foreign articles will be affected.

The Import trade will be affected

Again, if the duty that is at present levied upon foodstuffs is withdrawn, the exportation of foodstuffs will increase with the result that there will be a rise in its price. Such an increase in export will have its worst effect upon the poor labourers.

In normal times India has an abundant supply of foodstuffs and the amount which she exports is insignificant relatively to the total production. Such being the case India may not require any restriction

upon the exportation of foodstuffs except in abnormal times when there is a failure of food crops. Whenever such contingency arises efforts should be made to restrict export by the imposition of heavy export duties upon food crops. In view of the abnormal rise in the current year of price of foodstuff in India on account of shortage of foodstuff it is highly desirable that the Government of India should take immediate step for prohibiting the export of foodstuff so that the people of India may not die of starvation.

When Export duty should be imposed.

India is found to export large quantities of raw materials such as jute, cotton and hide. The question is whether export duties should be levied upon these raw materials. Several arguments have been advanced against the free exportation of raw materials. It is argued that unrestricted exportation of these materials will lead to a rise in their prices and the cultivators will think it profitable to use their land in producing these commercial crops. Thus production of food crops will be neglected. There is no doubt some truth in the argument but there is no immediate cause of anxiety in view of the fact that the area under non-food crops is exceedingly small.

Should export of raw material be restricted.

Again, it has been argued that free exportation of raw materials will stimulate the production of non-food crops and the result will be that fertility of the soil will be exhausted. This fertility can be recouped by the application of manure ; but the large export of oilseeds deprives the country of cheap manure. It also threatens the development of oil-crushing industry in India. This is true ; but any duty imposed on the export of oilseeds will as the Agricultural Commission contends, have to be borne by the Indian cultivators because India cannot claim to be the chief producer in the world's oil-seeds and the loss to the producers will be hardly compensated by the gains to the consumers.

Lastly, it has been argued that free exportation of raw materials will raise their prices and hamper the progress of the infant industries. There is some force in the argument. The cost of production will no doubt decrease if the raw materials are available at lower prices but the industries will get better protection if heavy duties are imposed upon foreign articles that compete with the products of Indian industries.

The above arguments make a strong case for the imposition of export duty on raw materials, but the Government of India has not cared to accept these arguments and has abolished the export duty on raw skins.

Sec. 7. The Policy of Free Trade : Its limitation.

The doctrine of free trade is based upon important fact that nature has not provided every country with an equal opportunity of producing any and every article that it requires. There are countries which have advantages in certain spheres of production while there are others having opportunity in other spheres. Such being the state of things it will be to the interest of a particular country to restrict its efforts to the production of those commodities alone in producing which it has comparative advantage. The same principle should also be followed by other countries. Such restriction on the production of commodities by a country cannot be possible unless there is a free international trade between nations. Such trade will create a spirit of co-operation and interdependence among the different countries and the result will be that peace and prosperity will reign in this world. The economies of production will increase because a country will apply her productive resources in those industries alone in which she has comparative advantages and produce not only for her ownself but for other countries which have no advantage in those industries. The scale of production will thus be enlarged with the result that the economies derived from large-scale production will be enjoyed not only by the country that produces but also by others that depend upon the former country for the supply of the article produced. Thus we see that the policy of free trade if unanimously adopted by every country will secure maximum satisfaction for the people of the world; but it should be noted in this connection that it will not be safe for a nation to adopt a policy of trade which knows no restriction. The different countries of the world are not in the same state of economic development. In some countries, *e.g.*, in Europe the industrial revolution commenced earlier but there are countries which are still in a state of transition. India with whose development we are at present concerned falls within the latter group of countries. She is just passing from the state of agriculture to one of industry, her industries are still infant and in consequence, will be driven to the wall if the well-established industries are allowed to compete freely with them. There are certain industries in which India has chance of success provided the Government takes care to give them temporary protection from foreign competition. It will not be safe to take into consideration the present position of an industry only but the fiscal policy should be moulded with reference to its future possibility. A country may not be in a position to compete with another country in the production of certain commodities but that does not

The basis of the doctrine of free trade

The limitation to the Free Trade policy.

conclusively prove that it will remain in that state for all time to come. If it has natural advantages for the production of a commodity its other difficulties can be removed very easily when efforts are made for their removal.

The policy of Free Trade becomes largely discredited when it is once found that a country has natural facilities for success in the sphere of Industry. Of course we cannot ignore the advantages of an earlier start which a prosperous country may happen to possess but skill may be acquired, capital may be attracted, and other difficulties may be gradually overcome if for a period of time the infant industries are protected against foreign competition. The argument of protection receives additional support in view of the fact that industrial combination and trusts have strengthened the position of well-established industries and the result is that infant industries can scarcely compete with them in the market.

Sec 8. Arguments for Protection in India.

India is an agricultural country and industrialisation has not as yet made considerable progress. She has a large stock of raw materials and these she has to export in large quantities in order to pay the prices of manufactured articles that she happens to import. The foreigners though dependent upon India for the supply of raw materials has already flourished in the sphere of industry while India in spite of her abundant resources remains as dependent as ever. The economic loss which India sustains as a result of her backwardness in the sphere of industry is immense and makes a strong case for protection. A policy of protection will no doubt bring in certain evils which the opponents urge with vehemence but these will be outweighed by the advantages which will ultimately follow from the development of manufacturing power in India.

The present position of India.

It is often argued that protection will affect the interest of consumers by raising the prices of articles. There is some truth in this argument. But a country should look not to the present interst only but also to the future interest. It is sometimes prudent to make a temporary sacrifice so that a permanent benefit may follow. The foreigners may supply commodities from various motives ; often they are prompted by selfish interest to supply commodities at a price which is cheaper than what prevails in their own country. This present loss may be incurred with a view to deriving an ultimate gain when the industries of India have been destroyed. Even if we assume for the sake of argument that they are influenced by no sinister motive

Why protective policy should be adopted.

would it be prudent to depend absolutely upon a foreign country for the supply of commodities which are urgently necessary for national safety? The answer is in the negative. The present relation between nations may not continue for ever. For unavoidable reasons a war may break out and the supply of articles may be withheld. Thus we find that the policy of protection should sometimes be followed so that India may achieve all-round success in the sphere of industry and may avoid the present state of economic subjection.

How much there is fear of retaliation.

Again, it has been argued as against the protective policy that imposition of protective duty will give rise to a spirit of retaliation. If India imposes protective duty upon foreign commodities the foreigners will likewise impose heavy duty upon imports from India and thus the demand for Indian commodities will be reduced to a very great extent. But so far as India is concerned she has the least fear of such retaliation because her export consists mainly of foodstuffs and raw materials without which the industrial prosperity of foreign countries will be at stake. Again, even if such retaliation takes place India will not be affected in the least because diminution in the export of raw materials will facilitate the development of her industries.

Protection will not destroy internal competition.

It is also contended that a protective duty once imposed cannot be easily withdrawn. The infants will never grow old and stand on their own legs. The producers, again, will combine and their long purse will go to bribe the Legislature for retaining the protective duty. The producers will thus earn handsome profit at the expense of consumers. This argument cannot go unchallenged. Protection no doubt restricts foreign competition but if the internal competition is kept alive the producers will not be in a position to derive abnormal profits by raising the prices of articles. Thus protection is meant for the benefit not of producers alone but of the whole country.

Protection will create employment.

A policy of protection will lead to the establishment of many new industries and to the revival of many ancient industries which were dying out on account of foreign competition. The diversification of industries which such a policy will bring about, will help greatly in solving the problem of unemployment. People will find new avenues of employment and earn decent incomes which will add to their efficiency. Again, there are certain basic industries like iron and steel which when developed with the aid of protective duty will speed up the industrial progress and add to national prosperity.

Again, a protective policy, it has been contended, would destroy the foreign trade and deprive the country of the moral and economic benefits arising from such trade, but this argument cannot stand. The people of India do not speak of protecting any and every industry, nor do they say that India should make herself a self-sufficing unit without having commercial relation with any other country of the world. What India desires is that her infant industries should be protected before the free trade policy is adopted. The latter policy could have been without any qualification if the Indian industries had been on the same level with the industries of other countries. What India demands is protection with discrimination. With this limitation India is willing to adopt the free trade policy and to carry on the foreign trade. It is no doubt true that protection of a particular industry must necessarily reduce the import of a rival foreign product ; but this reduction in import may be counterbalanced by a corresponding increase in the imports of machinery to be used in the protected industry. Thus the total volume of import may remain unaffected. It is also argued that the protected industry will be in a position to consume the raw materials which are now exported. The price-level will rise and for that reason India will become a bad market from which foreigners will cease to purchase commodities. In this way the export trade will diminish and this must necessarily be followed by reduction in import. This would happen only during the transition period but as soon as the industries are developed, the restriction on import will be taken away and India's commercial relation with other countries will be based on natural advantages and mutual convenience.

What kind of protection India demands.

Sec. 8 (a) Protective Tariff and Public revenue.

The Government of a country may impose import duties of various kinds. All of them may not be protective in character. There are duties which are imposed with a view to earning some revenue for the State. These duties are known as revenue duties and do not possess the characteristic of protective duties except by accident. During the war time the Government of India imposed such duties with the object of meeting its war expenditure. Although these duties were intended for the acquisition of extra revenue they went to encourage certain industries of India. Nevertheless we could not call them protective duties. A protective duty is levied upon a foreign commodity when the country to which it is imported has the natural facilities for producing the same but cannot now produce as economically as the

The revenue duties.

foreign country. This duty when imposed will evidently raise the price of the articles so that the infant industries may not find any difficulty in securing purchasers for their articles. Sometimes the duties may be so high as to prevent the importation of goods; in such a case the Government cannot derive any revenue because the duties are really effective and no commodities upon which such duties have been imposed are imported. If however, the duties are not so high, considerable amount of foreign goods may be imported and the amount of revenue depends upon the quantity that continues to be imported. Even when there is considerable income from this source we cannot regard the whole of it as a net increase in public revenue because the imposition of such duties will lead to rise in prices and higher the prices, the smaller will be the taxable capacity of the consumers. But there are other factors as well. The diversification of industries which protective tariff will bring about will throw open new avenues of employment and thereby enable people to command decent incomes. The manufacturers and businessmen will earn huge profits and the revenue derived from the income-tax will be considerable. Thus we see that it is very difficult to say dogmatically what influence the protective tariff will have upon the revenue of the State during the short period. In the long period protective tariff will surely bring higher revenues by augmenting the national dividend, reducing prices and increasing the taxable capacity of the people.

Sec. 9. What policy should the Government adopt: Discriminating Protection.

Fiscal Commission's view.

The present miserable condition of India is due to the absolute dependence upon agriculture and the economic prosperity cannot be ensured unless and until there has been a diversification of industry. The Fiscal Commission after studying the economic condition of India arrived at a preliminary conclusion which may be stated in the following lines: – 'The Industrial development of India has not been commensurate with the size of the country, its population and its natural resources and that a considerable development of Indian industries would be very much to the advantage of the country as a whole."

The above development cannot be effected unless the government protects the infant industries by imposing protective duties upon foreign commodities. Now the question that arises is as to the nature of the protective policy that the government should adopt to safe-guard the interests of Indian industries. Is it desirable that

there should be out and out protection? Our answer is in the nagative. India has not the possibility of success in any and every sphere. There are certain industries in which India has no chance of success and it will be baneful to the interest of India if such industries are protected. So far as these industries are concerned Government will not have to impose any protective duty. It may however impose revenue duty if it likes to do so. But there are industries in which India has certain comparative advantages and these will ultimately flourish if proper step is taken to protect them so long as they are infant. This brings us to the question of discriminating protection as recommended by the Fiscal Commission. Those industries alone should be protected which possess natural advantages showing possibility of their development in future, which cannot flourish without protection and which must be able to withstand foreign competition in the long run without protection. The claims should be referred to the Tariff Board for consideration. If the Board is satisfied that the industry fulfils the above conditions it should make necessary recommendation to the Government.

Discriminating protection.

Again, in granting protection the Government should always be guided by the principle of minimum sacrifice. There is no doubt that people must have to make some temporary sacrifice for some permanent benefit in future. The protective policy should be guided in such a manner that the price-level will not be seriously affected by it. Again, the time during which protection will remain in force will be neither too long nor too short. The protective duty imposed upon foreign articles should be abolished as soon as the industry has acquired sufficient strength to face the competition of cheap foreign articles. If this is not done the interest of the consumers will be seriously affected.

Policy should be clear.

Before granting protection the authorities must be satisfied that the industry has a fair chance of success and that it will be in a position to produce commodities at a cheaper price and in sufficient quantities. They should also take into account whether the industry is specially at a disadvantage because of the dumping policy which the unscrupulous foreigners may follow for a period of time. This unfair means of selling commodities at a lower price in India should be discouraged without delay by the imposition of protective duty; otherwise there is great chance that Indian industries will die out. Similarly, bounty-fed articles may enter India and prove

Remedy against dumping and bounty.

ruinous to the Indian producers. When this is detected, steps should be taken to impose duty upon importation of foreign goods and this duty should be equal to the bounty which these foreign goods may happen to enjoy.

Responsibility of the Tariff Board.

The task of granting protection is very difficult and the responsibility is very great. The Tariff Board to which claims for protection coming from different industries should be referred, should, therefore, consist of persons who have a keen sense of responsibility and are possessed of rare moral and intellectual qualities. They should weigh the advantages which protection may bring and the sacrifices which the consumers may have to undergo. If they are satisfied that industries fulfil the conditions set forth in the recommendations of the Fiscal Commission they may propose a scheme of protection. Here again the Board should always bear in mind one important fact that if the rate of duty is too high it will be detrimental to the healthy growth of a spirit of self-reliance and entail a serious loss by unduly raising the prices. Again, the rate of duty should not be too small to act as a stimulant. The cost of production in India should be compared with that in foreign countries and the interest and convenience of the consumers should be carefully considered before the rate of duty is fixed.

Lala Harkishen Lal's maxim.

As we cannot say that a child will earn his own bread after a definite number of years so we cannot predict when an industry will be able to stand on its own legs. It will be prudent to follow Lala Haskishen Lal's maxim which runs as follows: "Nurse the baby, protect the child and free the adult." An industry should be protected so long as it remains an infant. Protection is a favour which an industry can enjoy till it has acquired sufficient strength to compete with foreign industries. It should be withheld when the circumstances cannot justify its existence. This necessitates a periodical review of the position of the industries made by the Tariff Board whose impartial recommendation regarding the continuance or withdrawal of a protective duty should be equally impartial and not liable to be influenced by particular interest.

Imposition of export duties on raw materials.

Another method of protecting the infant industries is to restrict the exportation of raw materials by the imposition of protective export duties. True it is that such duties will go to cheapen the raw materials and thereby reduce the cost of production. Nevertheless, the policy of imposing export duties stands largely discredited because it

causes serious injuries to the producers of raw materials and throws the entire burden of such duties upon them. This is against all principles of equity and fairness. Again, the imposition of such duties may result in a loss of foreign market unless India can command the proud position of a monopolist in respect of the production of raw materials upon which such duties are imposed.

The method of granting bounties.

There is another method which the Government may sometimes profitably adopt in order to protect the industries from foreign competition. This consists in granting bounties to the industry. Foreign countries have sometimes been found to take recourse to this method of protecting industries. This method has one important advantage in this respect that it does not raise the price of the articles which the industries happen to produce. This method throws the burden upon the Government. The Government must increase its revenue by taxation in order that it may discharge its responsibility in this connection. Thus ultimately the burden falls upon the people. Again, this method requires an administrative machinery which is sometimes too costly. The Government of India has granted bounties on several occasions. In 1924 certain Steel manufactures, *e.g.*, steel rails and fish plates were favoured with the grant of bounties at certain rates. The Tariff Board suggested the grant of bounties on the Cement Industry but the Government did not accept the proposal. The Government can sometimes remove the difficulties of industries by supplying them with necessary information concerning the market for their products.

Sec. 10. Evils of Protection: How it Affects different classes.

How different sections of the community will be affected.

The imposition of protective duties upon foreign commodities that compete with the infant industries of India is urgently necessary for the economic prosperity of the country ; but the price of the product of the industry protected will rise to the extent of the duty levied upon it. What then will be the effect of such protection upon the different sections of the community? The poorer classes will not be very much affected because their means permit them to consume very little of imported articles. If however, an import duty is imposed upon foreign cotton goods they will have to suffer to a certain extent inasmuch as they cannot do without a quantity, however small, of such goods. The agriculturists may also suffer to some extent but their sacrifice can be reduced if protection is granted with discrimination. The middle classes will have to make greater sacrifices because they consume imported articles in large

quantities. It is often argued that people will earn higher wages under a protective system; but this is far from the truth. True it is that the system will increase the demand for labour in certain industries which are protected. The skilled labourers will no doubt get better wages but the economic position of the unskilled labourers will not improve very much because of their over-whelming number. The price will rise considerably but the wages will not rise as fast as prices. There is also another evil effect which we cannot ignore. The protected industries will not gain much because they will be compelled to pay higher wages to the labourers whose cost of living has increased. The sacrifices which different sections of the community will have to make depend upon the nature of protective tariff which India adopts; protections should, therefore, be granted with discrimination so that the sacrifice may be reduced to the lowest limit.

Sec. 10 (a). Protection and Different Industries.

(i) *Cotton Industry* :—During the last Great War the prices of cotton goods rose very high partly because imports of cotton goods fell greatly and partly because export of cotton goods increased abnormally. This boom lasted for about six years. Then came a serious depression in the cotton industry. The demand for Indian goods in foreign countries fell substantially. China which was formerly the best consumer of Indian goods diminished her purchase from India. Again, the internal demand for cotton goods was being supplied by Japan which could afford to sell cotton goods at lower prices. The depreciation of Japanese exchanges stimulated her exports to India and thereby affected tho interest of Indian mills. The defective organisation of the mills, the unscrupulous policy of the managing agents, the over-capitalisation stock-watering, wasteful internal competition, inefficient method of production and the indifferent attitude of the mill-owners towards the welfare of the labourers played not an insignificant part in bringing about a depression of cotton industry. The war time and the post-war boom led to over-capitalisation. Lastly, we cannot ignore the effect of the artificial stabilitzation of the exchange ratio at 1*s*. 6*d*. upon the industry. The depression had been particularly acute in Bombay where the mills had to face the competition of up-country mills.

Depression in the cotton industry : its causes.

The cotton mills of Bombay demanded protection from the Government which in its turn referred the question to the Tariff Board for consideration and necessary recommendation. This was done in 1926. The Board after suggesting how the industry could be organised on an

efficient principle recommended that cotton manufactures other than yarn should be protected by an addition of 4 per cent to the existing duty on corresponding imports for three years and that a bounty should be granted on the spinning of higher counts of yarn for four years. There were also certain other recommendations regarding the free exportation of machinery and mill-stores and the appointment of trade commissioners. The Government, however, did not give effect to the recommendations concerning the imposition of import duty and the grant of bounties but removed the duty imposed upon machinery and mill-stores. There was serious agitation among the mill-owners and at last the Government had to reconsider the question. As a result of this reconsideration two Acts (Cotton Yarn Amendment Act and the Indian Tariff Act) were passed in 1927. By these two Acts the duty on cotton twist and yarn was fixed at one and a half annas per pound or 5 per cent *ad valorem* whichever was greater and the list of mill-stores to be exempted from duty was extended. The Acts were to be in operation till March, 1930. The competition of Japan manifested itself in naked form and the Government of India had to consider the problem again. The Tariff Board again emphasized upon the granting of substantial assistance to the mill industry. The Government appreciated the situation of the cotton mills and with a view to affording adequate protection to the cotton industry passed the Cotton Textile Industry Protection Act in 1930.

Act of 1927.

Act of 1930.

The Act imposed protective duties on all classes of imported cotton piece-goods to the extent of 15 or 20 per cent *ad valorem* according as they were of British or non-British manufacture subject to a minimum specific duty of $3\frac{1}{2}$ annas per lb. on plain grey goods of whatever origin. The Act also extended for a further three years the minimum of specific duty of $1\frac{1}{2}$ annas per lb. on cotton twist and yarn levied under the Indian Tariff Act, 1927. The new duties were to be in force until the 31st. December, 1933.

The provisions of the Act.

The cotton mill industry received further protection under the Indian Finance Act of March, 1931 and the Finance Act of November, 1931. The former Act imposed an additional surcharge of 5 per cent *ad valorem* on imported cotton piece-goods while the latter imposed a temporary surcharge of 25 per cent on the rates then existing. In this way the duty upon British goods came up to 25 per cent *ad valorem* and the duty on goods of non-British origin was raised to $31\frac{1}{4}$ per cent. The effect of

Finance Act of 1931.

these import duties was however neutralized by the imposition of import duty (10 per cent) on imported machinery, dyes, and other raw materials. A duty was also imposed upon raw cotton imports to the extent of half-anna per pound.

Safe-guarding of industries Act, 1933.

In 1933 the Safe-guarding of Industries Act came into force and the duty on piece-goods of non-British origin was raised from 31$\frac{1}{4}$ per cent *ad valorem* to 75 per cent. In accordance with the terms of Indo-Japanese agreement the duty of Japanese piece-goods was subsequently lowered to the 50 per cent. *ad valorem*. As a result of the prolonged negotiation between the representatives of the Japanese and the Indian Government a new trade agreement was arrived at. This agreement introduced the linking of imports of Japanese piece-goods on a quota basis with the export of Indian raw cotton and provided for the maximum rates to be imposed by the Government of India on Japanese cotton goods. Unofficial negotiations were also made between Lancashire representatives and the representatives of Bombay mill-owners. In February, 1934 the Indian Tariff Amendment Act was passed. The said Act allowed the imposition of protective duty on non-British cotton piece-goods at the rate of 50 per cent *ad valorem* subject to the minimum of 5$\frac{1}{4}$ annas per lb. in the case of plain greys.

Mody-Lees Pact.

The life of the Act was to expire on 31 March, 1939. As to protection against British goods the Indians were given the assurance that the question would be settled after the expiry of the Bombay-Lancashire Trade Agreement. Before the expiry of the said term a Special Tariff Board was set up to consider the question. Lancashire sent a special delegate to present her case before the Board. After the conclusion of enquiry the Board recommended a reduction of rates of duties on Lancashire plain grey goods from 25 per cent *ad valorem* or 4$\frac{3}{8}$ annas per lb. whichever was higher to 20 per cent *ad valorem* or 3$\frac{1}{4}$ annas per lb. whichever was higher. The recommendation was accepted by a notification and came into force on the 25th. June, 1936.

The Protective Duty continuation Act, 1942 provided for the continuance of existing duties till March, 1944.

Natural advantages.

(ii) *Iron and Steel* :—The economic prosperity of India is intimately connected with the development of this industry. The industry is still infant and cannot compete freely with the established industries of other countries although India has an abundant supply of iron ore and coal.

The industry can flourish only if it is protected by the imposition of a heavy protective duty on foreign goods. The Tariff Board to which the question of protection was referred, recommended protection for this industry on the ground that the industry satisfied all the conditions laid down by the Fiscal Commission. Accordingly, in 1924 the Steel Protection Act was passed. This Act increased the import duty on certain articles manufactured from steel and made provision for the grant of bounties upon steel rails, fish plates and railway wagons produced in India. This Act was to be operative for a period of three years. The engineering industry was protected by the imposition of higher duties on fabricated steel. The wagon industry was stimulated by the grant of bounties. The manufacture of tin plate, steel wire and wire nails was protected by a specific import duty of Rs. 60 per ton. These measures could not give adequate protection to the steel industry in view of the fall in the price of continental steel and maintenance of the high exchange value of the rupee. The Tariff Board recommended an increase in the protective duties but the Government made provision in 1925 for the grant of a bounty at the rate of Rs. 20 per ton on steel ingots subject to certain conditions. The Act of 1924 ceased to operate in April, 1927. The Tariff Board, again recommended a further protection for seven years Accordingly a Bill was introduced in the Indian Legislature in 1927 providing for the imposition of differential rates on British and continental steel. The Bill was passed into Act with this safeguard that Government would not be allowed to reduce the duty imposed upon British articles. In 1928 another Steel Protection Act was passed. This Act provided for maintaining a duty at 15 per cent on wagons and underframes and for the placing of all orders in India. The Act also provided for the imposition of a specific duty of Rs. 2 per cwt. on steel bolts and nuts. The industry has developed considerably on account of the protection given by the above legislations but the industry is still infant and requires protection for several years more. In 1931 the Still Industry Protection Act was passed and it imposed specific duty of Rs. 2½ per cwt. on fish and ordinary bolts and nuts and another of Rs. 2 on revets and other fastenings. Next important Act was the Indian Tariff (Ottawa Trade Agreement) Amendment Act, 1932 which introduced certain changes in the rates of duties imposed on steel products; in pursuance of Ottawa agreement steel goods of British origin were allowed to be imported on payment of duties which were lower than those imposed on foreign products.

Act of 1924.

Act of 1927.

Act of 1931.

The Report of the Tariff Board published in 1934 contained recommendations for the removal of even revenue-duties on a wide range of steel products of British origin and for the levy of an excise and a countervailing customs duties which will make up the loss of Government revenue. As a result of this recommendation the Iron and Steel Duties Act was passed in 1934. The Act made provision for reducing the level of duties in certain cases and with a view to making up the loss of revenue authorised the levy of countervailing duties against an imposition of excise duty of Rs. 4 per ton on all Steel Ingots produced within the country. The import duty leviable on Iron and Steel products has been generally increased to the extent of $1\frac{1}{2}$ times the excise duty leviable on steel ingots. Sometimes differential *ad valorem* duties are imposed on British and non-British goods when these exceed the alternative duty of $1\frac{1}{2}$ times the excise duty. The Protective Duties continuation Act of 1942 maintains the status quo of the existing duties on Iron and Steel manufactures till March, 1944.

Tariff Board's report.

(iii) *Tanning and leather industries* :—India possesses an abundant supply of raw hides and skins and exports a large quantity of them to Germany and U. S. A. The war-time boom showed the possibility of success of this industry but a depression came in when the war was over. The industry demanded protection and in 1919 an export duty of 15 per cent on hides and skins was imposed with a rebate of 10 per cent on hides and skins exported to other parts of the British Empire. The Fiscal Commission did not approve of this measure which could not give protection to the industry. The Government, therefore, reduced the rate of duty to 5 per cent and abolished the 10 per cent rebate in 1923. As a result of the recommendation made by the Fiscal Commission and the Taxation Inquiry Committee for the abolition of this duty on raw hide the Government proposed the abolition in the Finance Bill of 1927 but the Assembly rejected the proposal. The export duty on hide was abolished in 1934 and that on raw skin was abolished in 1935. The Indian Tariff Amendment Act of 1940 imposed an import duty on all barks for tanning. This duty was abolished by a notification of the Finance Department issued on the 4th April, 1942. India is the world's biggest producer and exporter of skins.

Prospect of Tanning Industry.

(iv) *Chemical industries* :—The chemical industry may be called a key industry in view of the fact that its products are used in almost all industries and that its importance in connection with national defence cannot be exaggerated. The success of these industries

Protection to heavy chemical.

depends upon the supply of certain essentials such as sulphric and hydrochloric acids, nitric acid, sodium carbonate, caustic soda, lime, fuel and chemical plant at cheaper prices. India has no doubt an abundant stock of these heavy chemicals but her chemical industries have to face the competition of powerful European combines. Again, she cannot claim an advantageous position with respect to fuel and plant. This makes a strong case for protection. The question of affording protection to the heavy chemical industries was referred to the Tariff Board in 1928. The Board examined the position of these industries and submitted two reports one dealing with the magnesium chloride and the other with the group of chemicals the basis of which was sulphuric acid. The Government gave effect to the recommendation of the Board by a legislative Act known as the Heavy Chemical Industry (Protection) Act, 1931. The said Act provided that the duties imposed upon the latter group of chemicals were to remain in force till the 31st March, 1933 while a protective duty of Re. 1-5 per cwt. imposed on magnesium chloride would remain in force for a period of seven years ending on the 31st March, 1939. The Chemical Drugs and Medicines in general have to pay preferential revenue of 30 per cent *ad valorem* on foreign goods and 20 per cent *ad valorem* on goods imported from the United Kingdom and British colonies.

(v) *Paper-making industry* :—The question of protecting this industry was referred to the Tariff Board in 1924. They were convinced of the prospect of the manufacture of paper from bamboo and recommended a protective duty of one anna per pound for five years on certain classes of printing and writing-paper. They recommended a loan of Rs. 15 lakhs to the Indian Paper Pulp Company at Naihati. In accordance with the recommendation the Government passed an Act in 1925 and thereby imposed a protective duty of 1 anna per lb. for seven years until 31st March, 1932. The Act of 1925 was to expire on the 31st March, 1932. Before the expiry of this date the whole position of the industry was reviewed by the Tariff Board. The Board marked the substantial progress of the industry and recommended that the protective duty should continue. The Board also recommended the imposition of a new duty on wood pulp. The Government accepted these recommendations and passed an Act which authorised the continuance of the existing duty for a further period of seven years and the imposition of a protective duty of Rs. 45 per ton on imported wood pulp. The Indian Tariff Second Amendment Act, 1939 levies a protective tariff of 25 per cent *ad valorem* on wood pulp, paper for writing or printing, paste board and old newspaper. The protective duty on paper was fixed at 9 pies instead of 11 pies per lb. The

Act of 1934.

Protective Duties Continuation Act, 1942 provided for the continuance of the existing duty till March, 1944.

(vi) *Sugar industry* :—Sugar industry cannot hold its own against foreign competition and deserves protection from the Government.

Specific duty on Sugar.

In 1899 a countervailing Sugar Duties Act was passed whereby a heavy duty was imposed on the bounty-fed sugar of foreign countries. From 1908-09 to May, 1925 the duty on sugar was on *ad valorem* basis. Since 1926-27 the duty has been specific. In 1931 the Tariff Board considered the claims of this industry for protection and recommended a duty of Rs. 7-4 per cwt. (Rs. 5-5 per maund) for seven years and Rs. 6-4 per cwt. (Rs. 4-10 per maund) for eight years more. These recommendations were given effect to by the Sugar Industry Protection Act of 1932. The Act also authorised the Governor-General to increase the duty if he was of opinion that the duty of Rs. 7-4 per cwt. proved insufficient to cope with the competition of foreign sugar. In September, 1931 an emergency surcharge of 25 per

Act of 1932.

cent was imposed so as to enhance the duty to Rs. 9-1 anna per cwt. (Rs. 6-10-5 pies per maund) in all.

Sugar Excise Duty Act, 1934 made sugar manufactured in Indian factory liable to an excise duty of Re. 1-5 per cwt. (annas 15-4·5 pies per maund) and imposed a duty of 10 annas on Khandesari sugar. The Act was severely criticised on the ground that it would go to raise the price of Indian sugar and stimulate the sale of foreign sugar in India.

By the Finance Act of 1938 the excise duty on sugar other than Khandesari was raised to Rs. 2 and on Khandesari sugar to Re. 1-5. (In 1940 the excise duty was raised from Rs. 2 to Rs. 3 per cwt.) The import duty on sugar was raised from Rs. 9-10 per cwt. to the rate at which the excise duty for the time being leviable on sugar other than Khandesari or palmyra plus Rs. 7-4 per cwt. In 1939 the Sugar Industry Protection Act was passed. This retained the import duty on sugar at the reduced rate of Rs. 6-12 per cwt. in place of Rs. 7-4 per cwt. The Protective Duties Continuation Act of 1942 makes provisions for the continuance of the existing import duty till 31st March, 1944.

The industry is suffering greatly on account of over-production. The surplus stock amounted to 4 lakh tons in 1939-40. This makes a strong case for the removal of ban on export and imposition of a ban on imports and reduction of cost by lowering the excise duty and prices of cane. In view of these difficulties the industry has been

granted a temporary relief in respect of one rupee of the excise duty of Re. 1-7-6, per maund on all sugar manufactured during the past season and remaining unsold on the 25th August, 1940.

Cement Industry.

(vii) *Other industries* :—We have discussed the question of protection with reference to the principal industries and the steps that the Government has taken in order to protect them. There are several other industries which have been the subject-matter of enquiry by the Tariff Board.

Match Industry: Act of 1928.

Another important industry to which the attention of the Tariff Board was drawn is the Match Industry. This Industry is controlled by the Swedish combine and the Tariff Board did not recommend for the protection of Indian concerns against this foreign company. The Board however, recommended the imposition of protective duty so that the foreigners might not destroy this infant industry of India. In 1928 the Match Industry Protection Bill was passed.

Excise duty on Matches.

The protective Duty imposed upon foreign matches varies according to the number of matches contained in a box or booklet. It is 10 annas per gross of boxes or booklets containing not more than 40 matches in addition to the excise duties imposed by the Matches Excise Duty Act of 1934. In 1937 matches in boxes containing not more than 40 matches per box had to pay Re. 1-10 per gross of boxes. This duty was raised from time to time. A notification issued by the Central Finance Department on 20th September, 1941 exempted matches in boxes or booklets containing on an average more than forty but not more than fifty matches from so much of the Excise duty as is in excess of Rupees two and annas eight per gross. This was followed by another notification reducing the import duty to a duty equivalent to excise duty leviable on such matches plus 12 annas and 6 pies per gross of boxes or booklets.

Sec. 11. A Scheme for Inter-Imperial Preference: Its Aims and Objects.

The object of the scheme.

By the expression "Inter-Imperial Preference" we mean nothing more than a differential treatment to be accorded to the countries within the British Empire so far the international trade is concerned. This scheme came for the first time out of the fertile brain of Sir Joseph Chamberlain. The object of this scheme was to turn the whole of British Empire into a self-sufficient unit free from any economic subjection. Again, the formulation of the scheme had been

to some extent due the unsympathetic treatment that exports from England received from foreign countries. England followed the principle of free trade and did not impose any duty upon foreign goods other than that for revenue purposes merely : but the foreigners imposed heavy duties upon British commodities with a view to protecting their industries. This want of reciprocity was one of the causes that brought the question of Imperial Preference into prominence. Again, we cannot ignore the political motive that lies behind the scheme. If each part of the British Empire treats the other parts more favourably than it treats the foreigners, evidently there will develop in course of time, a sense of unity and solidarity and this commercial unity will ultimately facilitate the political progress of the whole Empire.

Motive behind the scheme.

The above scheme suggests that Tariff policies of the component parts of the Empire should be regulated in such a manner as to give certain preferences to Empire goods over foreign goods within the Empire. It recommends the interchange of commodities between different parts without any duty or with a duty which is lower than that charged upon similar goods imported from a foreign country. The industries of the Empire as a whole will thus be protected from foreign competition.

It should not however be thought that the scheme of Imperial preference is altogether inconsistent with the idea of protecting the industries of a country forming part of the British Empire from the competition of other parts. This fact will be clear if we study the resolution of the **Colonial Conference** of 1902. The Conference held that it was not possible at that time to adopt the policy of free trade as between the United Kingdom and its Dominions. The Dominions should not therefore be compelled to import commodities from the United Kingdom or from one another without imposing any protective duty. The Dominions should have the right of protecting their industries from any foreign competition as well as from the competition of a country included within the British Empire. On the other hand the Dominions would treat the commodities imported from the United Kingdom more favourably by imposing lower duties on such commodities. Such preference would be given only if it does not interfere with the economic interest of the country and if the United Kingdom in its turn would agree to accord the same sympathetic treatment. The Imperial preference does not, therefore, mean preference given at

Scheme does not mean the adoption of free trade policy within the Empire.

the expense of the country giving the same ; on the other hand it means a more sympathetic treatment to be accorded to the countries forming the British Empire as against the foreign countries. Preference thus means protection granted to the favoured country. It involves a sacrifice of revenue on the part of the Government and throws additional burden upon the consumers.

Ottawa Conference and its recommendations.

The Imperial **economic conference** held at Ottawa in 1932 recommended the establishment of a machinery for carrying on economic consultation and co-operation between the countries of the British Commonwealth so that the economic interest of every member may not be prejudiced by the adoption of any policy of inter-Imperial preference. In persuance of the recommendation a Committee known as the **Imperial Committee of economic consultation and co-opperation** in which India was represented by Sir Atul Chatterjee and Sir Padamji Ginwalla was set up in 1933. The Committee recommended that the Governments of the Empire should contribute annually £24,000 towards the financing of the Imperial Economic Committee, the Imperial Shipping Committee and also to meet the additional expenditure of the Imperial Agricultural Bureau. The amount of contribution in which Indian's share has been fixed at Rs. 38,4000 per annum should be paid for three years with effect from the 1st October, 1933.

Sec. 12. Should India Adopt a scheme for Imperial Preference ?

Opinion of the Fiscal Commission.

Let us now discuss the advisability of the adoption of this scheme by India. At the very outset we think it proper to state the opinion of the Fiscal Commission on the point. The opinion runs as follows—"India cannot accept the principle of Imperial Preference until she has attained responsible government and is able to regulate her fiscal policy by a vote of a wholly elected Legislature". The reason underlying this opinion is that interest of India will be affected unless the scheme is adopted by the will of the people as represented in the Legislature. The question of Imperial Preference is vitally connected with the economic development of India and hence adoption of the scheme will be possible only when the Act of the Legislature represents possibly the views of the electorate. Again, the concession to be granted to the Empire countries should not be dictated by the mother country. This pre-supposes that the country adopting the scheme for Imperial Preference must have an Independent Legislature.

We shall next consider the economic effect that will follow from adoption of this scheme by India. If India adopts this scheme she will have to impose heavier duties upon manufactured commodities that are imported from foreign countries with the result that the price of those commodities will rise. The consumers of these articles will have to suffer on that account. In the second place, it should be noted that the imposition of such heavier duties upon foreign commodities may give rise to retaliation and the foreigners may restrict the importation of Indian goods into their countries. In this way India's export trade may be reduced; but it should be remembered in this connection that India's export chiefly consists of raw materials and foodstuffs and the foreigners will think twice before imposing heavier duties on such articles. Though this is true yet we cannot be sure that no retaliatary measures will be taken by the foreign countries. Again, the Government of India will have to sacrifice a large part of its revenue if it has to show such favourable treatment to the United Kingdom and other countries that are included within the British Empire.

Effects of the adoption of the scheme.

The amount of benefit that India may expect to derive by the adoption of the Imperial Preferential scheme can be determined by considering the nature and character of her exports to the United Kingdom and other parts of the British Empire. The Imperial Preference brings higher benefit in the case of manufactured export than in the case of exports of raw materials or foodstuffs. If a country imposes higher duties on these latter kinds of things it will do so to the prejudice of its own economic development; on the other hand the lowering of such duty will sometimes encourage the exportation of those commodities and thereby retard the progress of industries of the country that exports. India is a country whose exports consist mainly of raw meterials and foodstuffs. Such being the case she has not much to gain by adopting the scheme of Imperial Preference. Again, the gain, if any, is restricted to that part of the export trade which has reference to the United Kingdom and other parts of the British Empire. The importance of India's trade with British Empire is gradually declining. In 1930-31 her exports fell to 32·6 per cent of her total exports as compared with pre-war average of 41·1 per cent.

How to calculate gains and losses.

Thus, ultimately, India may derive some benefit from this portion of the trade; but if the whole situation is taken into account it will be seen that a large deduction is to be made out of this part of the export trade because India happens to have a practical monopoly

Question of loss and profit.

so far as certain main items of her export such as tea, jute, etc., are concerned. Again, there are certain other articles of export, e g., wheat tea, etc., in which she has her competitors within the Empire and in consequence, she will derive little or no benefit from the exportation of those articles. Coming to the question of import we find that the adoption of this scheme will seriously affect the infant industries of India. The imports from the United Kingdom and other parts of the Empire cover as much as 50 per cent of the total import. Such being the state of things preferential treatment of goods imported from any part of the British Empire will tell upon the indigenous industries of India. On the other hand heavier duties upon foreign commondities will raise their price to the prejudice of the consumers. Considering all these factors we find that India cannot expect to gain much if she adopts this scheme. These were the main reasons why India refused to join the Imperial Preferential Scheme in 1903.

Whether India can afford to give preference to British goods.

There are several Indian articles which have been allowed to enter the United Kingdom only on payment of preferential rates; of course such preferential treatment has not brought immense benefit to India still it cannot be denied that she has been benefited to some extent. Now the question arises as to whether India can afford to give some preference in return. This leads us to the consideration of the manufactured articles that are imported into India from the United Kingdom and the nature of foreign competition to which the imports from the United Kingdom are subject. The imports from England which are affected by foreign competition consist chiefly of machinery, motor cars, iron and steel, cotton fabrics, tobacco and rubber goods; but preference cannot be given to each of these articles without prejudicing the interest of India. It should be borne in mind that the imposition of preferential tariff upon British commodities may be justified if the interest of India is not seriously prejudiced thereby. Proceeding on this principle we find that India can afford to give preferential treatment to commodities like cigarettes and rubber without seriously affecting the interest of India.

Sec. 13. The Policy of Imperial Preference: Ottawa Agreement.

How the Government of India took to the policy of Imperial Preference.

The policy of Imperial Preference is not a novel idea. It has a long history. In the eighteenth century England took to this policy of granting preference to imports of corn from the colonies. The movement received considerable force in 1895 when Joseph Chamberlain came forward with a scheme for constructive

imperialism. Canada lowered the duty upon British goods in 1897. In 1900 the preference was raised to 33½ per cent. The other dominions commenced to show favour to British goods in pursuance of the resolution passed in the Colonial Conference in 1902. England, however, remained indifferent and strictly followed the traditional policy of free trade. The great war proved clearly the difficulties that followed from the dependence upon a foreign country for the supply of necessary articles. The question of Imperial solidarity and economic self-sufficiency came into prominence and in 1919 England made up her mind to grant preference to the goods imported from the dominions and India. In India the practice of granting preference to British goods existed at the beginning of the nineteenth century. During the Company's regime the British goods enjoyed preferential rates by virtue of the Regulation IV of 1815 which remained in force till 1859. Since then India ceased to show any preference to British goods although she was asked to adopt the policy of preference in 1903. After the Great war the Government of India granted preference to empire countries by reducing the duty on hides and skins by 10 per cent. The question of preference was referred to the Fiscal Commission which opined that it would not be safe for India to adopt the policy of preference unless she had formed an independent legislature. In spite of this conclusion the Government of India imposed preferential duties upon the import of steel in 1928. In 1930 preference was granted to Lancashire in respect of the import of cotton piece-goods to the extent of 5 per cent. The Imperial Conference which met in London in 1930 discussed the question of preference but it could not produce tangible results. Next came the Ottawa Conference which accepted the policy of Imperial Preference in 1932. All the draft agreements regarding preference were prefaced by an undertaking by Great Britain to enforce for another three years the free entry of certain empire goods provided for under the Import Duties Act, 1932. There were several undertakings made by the British Government in all these agreements. One is that the general *ad valorem* duty of 10 per cent imposed under the Import Duties Act on foreign goods competing with Empire goods shall not be reduced except with the consent of the Empire Governments concerned. Another undertaking is that agreement with all conntries shall remain in force for five years and if not denounced six months before the expiration of that period it shall continue in force until six months' notice to denounce it has been given.

Ottawa Agreement.

The agreement though supported by the Government of India

could not command the support of the patriots of India. The nationalist press denounced vehemently the terms of agreement. In the teeth of these oppositions the Ottawa Tariff Bill was referred to a special Committee of the Legislative Assembly, secured unanimous report from the said Committee and was passed on the 15th Dec., 1932 without a division. The agreement came into force in 1933.

This Act of 1932 which is otherwise known as the Indian Tariff (Ottawa Trade Agreement) Act provided for the grant to the United Kingdom of a $7\frac{1}{2}$ per cent preference on certain classes of Motor vehicles and 10 per cent Tariff Preference on certain other goods. The articles which were favoured with preferences were included in two parts—Part VIII and Part IX. Those included in Part VIII were charged with a standard rate of 30 per cent with a preference of 10 per cent for British goods. Part IX contained all articles on the Preferential lists which were formerly charged with duties at special rates and which were by the Act given preference either by raising the previous rate all round or partly by raising and partly by lowering it, the standard rate in no case exceeding 50 per cent *ad valorem*.

As regards exports India obtained from the United Kingdom preferences varying from 5 to 15% with regsrd to certain commodities while certain goods were allowed to enter as free goods. The Act of 1932 was supplemented by two other agreements signed on 22nd September, 1933 and on 9th January, 1935.

Sec. 14. Ottawa Agreement Analysed.

Mr. Lindsay's opinion.

We have already seen that India is an involuntary party to the Ottawa Agreement. Let us now measure the profit and loss which follow from such agreement. Mr. Lindsay, the Trade Commissioner of India speaks very highly of this agreement because it has, in his opinion, given India the gift of a sheltered market in the United Kingdom. We shall presently see how far this gift has been a blessing to India.

Share of Great Britain in export and import trade.

If we review the position of international trade of India before the operation of the agreement we find that the share of Great Britain and her colonies began to take a downward course and could not in 1930-31 cover more than 44·8 per cent of the total import trade and 26 per cent of the export trade. The rest of the import and export trade had reference to other foreign countries. To divert the natural movement of trade by artificial preference to

Empire goods can hardly be beneficial to the interest of India. Coming to details we find that the so-called gift of sheltered market is too heavy for India to bear. India is an exporter of foodstuffs and raw materials and importer of manufactured goods. It is to the interest of Great Britain to import these articles free of duty and preference to these articles does not bring any real benefit to India particularly when the other colonies of Great Britain which compete with India in the supply of raw materials and foodstuffs are favoured with the same preference. Thus in the face of competition of Canada and Australia in the wheat trade and of Ceylon in the tea trade India can scarcely hope to derive any benefit from the preferential duties imposed on wheat and tea in the United Kingdom. As regards raw cotton India gains nothing from preference in view of the fact that the United Kingdom provides no market for short-staple cotton and export of raw cotton prejudicially affects the interest of cotton mills in India. Great emphasis has been laid upon linseed and other oilseeds and the supporters of agreement exaggerate the benefit which India will derive from preferential rates imposed on these seeds, but as England cannot afford to purchase more than 15 per cent of the total quantity of oilseeds available for export the profit under this item cannot outweigh the loss which India may happen to suffer on account of the retaliation of the continental countries.

On the import side we find that India has to give Great Britain preference on the long list of manufactured goods including many articles which are essentially required for the industrial development of India. These manufactured goods, India can profitably purchase from foreign countries, and preference on British goods means that India will be made to purchase these articles in a dear market. Again, if preference to British goods is secured by increasing the existing duty on foreign goods the prices of commodities will rise to the detriment of the interest of the consumers. On the otherhand when preference is given by lowering the duties charged on British goods the Indian industries will be deprived of the protection which they deserve. The Government of the country will also stand to lose a large sum in customs revenue. Thus we see that profit which India may possibly derive from the agreement falls far short of the loss which India sustains therefrom. This is also corroborated from an account of the balance of trade after the agreement. The agreement has been in operation for a number of years but the position of the over-sea trade does not show any sign of prosperity. Our vast customary annual favourable balance of trade which stood at a hundred

Balance of trade does not justify the agreement.

and fifty seven crores in 1925-26 was reduced to a minus balance of fifteen lakhs of rupees. The situation had to be met by a heavy export of gold. India must maintain a favourable balance in order that she may fulfil her financial obligation to Great Britain. This surplus can scarcely be maintained if by reason of Imperial preference the foreign countries retaliate and reduce their purchase of Indian goods. If Great Britain cannot afford to make up the loss occasioned by such retaliation India will surely stand to lose much by according preferential treatment to British goods. The agreement has also proved a stumbling block in the way of that economic internationalism which alone can permanently restore free trade and the world's purchasing power.

Sec. 14(a) Justification for Ottawa Agreement.

Ottawa agreement has not been supported by the public opinion of India ; but even then there are some justifications for the agreement and it is interesting to note them. In the first place the world economic crisis was associated with considerable decline in the prices of raw materials which figure prominently in the external trade of India.

Secondly, India had many rivals to fight within the foreign markets and there was an appreciable fall in the demand for Indian goods in those markets.

Thirdly, U. S A. and other countries were found to accord sympathetic treatment to goods supplied by their colonies.

Fourthly, foreign countries often imposed higher duties on import with a view to protecting their own industries and promoting self-sufficiency.

Fifthly, there was stringent control over foreign exchanges.

Sixthly, India's exchange was linked with sterling which since the abandonment of Gold standard was not redeemable in gold.

All these factors led India to enter into Ottawa agreement in apprehension of the loss of her big customer—the United Kingdom.

Sec. 15. The New Trade Agreement.

The Ottawa agreement could not command support from the Indian Public. It was denounced by the Central Assembly on 30th March, 1936 and came to an end on the 13th November of the same year ; but pending the conclusion of a new treaty the preferences given by the Ottawa agreement remained in force. Next followed the protracted negotiation between the Government of India and the

British Government for the conclusion of a new trade agreement and the Hon'ble Sir M. Zafrulla Khan was sent to London thrice to settle matters with the British Board of Trade. A new agreement was in the long run devised and on the 20th March, 1939 the new Trade Agreement was signed. On the 27th March, 1939 the Assembly rejected the official motion for the approval of the Agreement. The terms of the Agreement were then incorporated in a Bill which though rejected by the Assembly became an Act on the 18th April, 1939 as the Governor-General certified the passing of the Bill. This new agreement makes provisions for a preference of 15 per cent *ad valorem* to certain jute manufactures like cordage, cables, ropes and a preference of 20 per cent *ad valorem* to Indian coir mats and cotton manufactures. In return India has to accord preference of 10 per cent to certain British imports like chemicals, paints, sewing machine and 7½ per cent preference to motor cars, motor cycles and omnibuses. This agreement has linked the preference to the United Kingdom piece-goods with the offtake of Indian cotton on a reciprocal graduated scale. The objective figure for the United Kingdom's offtake of Indian cotton has been fixed at one million bales and the guranteed minimum is 6½ lakhs of bales. As against this export India's demand for British piece-goods has been fixed at a minimum of 200 million yards and a maximum of 400 million yards. There has been a considerable reduction in the value and number of preferences accorded by India to the United Kingdom. The present agreement means a substantial improvement of the Ottawa agreement. Only 16 per cent of India's imports from the United Kingdom are subjeet to preference but 82 per cent of Indian exports of the United Kingdom are to enjoy preference or free admission. The new agreement however differs from the Ottawa agreement in giving preference to Lancashire goods which compete with Indian goods. In this way it lays down a scheme for protection within preference instead of preference within protection.

Agreement criticised.

The agreement cannot claim an unqualified support from the unofficial circles. By the linking up of Lancashire's offtake of Indian raw cotton with India's purchase of British goods, particularly textiles, the balance of advantage is undoubtedly in favour of the United Kingdom. This is clear from the view of Mr. A. D. Campbell who says, "I hope, when we examine the details of the agreement we shall find that there is genuine scope for considerable increase in our trade."

The 5 per cent reduction in duties all round cannot but mean a progressive reduction of the protective tariff duties on British manu-

factures. For this reason the Indian delegation refused to consider any reduction to less than 15 per eent. The present agreement however allows a reduction up to $12\frac{1}{2}$ per cent in order to ensure the minimum yardage of import. India's advantage in the export trade has been exaggerated. Of the estimated total value of Rs. 33 crores India will enjoy effective preference in respect of goods worth about Rs. 6 crores and with respect to the rest of value there is scarcely any effective preference.

Reduction in duty and its effect.

The agreement has also been attacked on the ground that it has been forced upon India without obtaining the seal of approval from the Assembly as insisted upon by the Fiscal Commission. It will surely give rise to a spirit of retaliation and foreign countries will surely reduce their purchases of Indian goods with the result that India will cease to have a favourable balance of trade which is urgently necessary for the liquidation of her obligation to Great Britain.

Questions & Answers

Q. 1. What are the peculiarities of the foreign trade of this country? Account for the permanent excess of exports over imports and indicate the effects of this necessity of increased exports on India's currency policy.

(C. U. 1909, 1911, 1912, and 1922).

Ans. *See*—Ch. XIII, Secs. 5 and 6.

Q. 2. State the so-called infant industry argument for protection. Is such protection necessary for India of to-day? Would you favour the inclusion of India in a system of Inter-Imperial preferential duties? (C. U. 1909, 1910 and 1912).

Ans. *See*—Ch. XIV, Secs. 7 and 8.

Q. 3. Give a general idea of India's imports and exports and indicate in which direction India should cultivate her exports. (C. U. 1910).

Ans. *See*—Ch. XIII, Sec. 7.

Q. 4. Public opinion in India is overwhelmingly protectionist. State the chief arguments on which protection is advocated for this country: attempt a careful examination of Indian Protection. (C. U. 1911).

Ans. *See*—Ch. XIV, Secs. 7 and 8.

Q. 5. Draw a rough statement of debits and credits of India with foreign countries and explain how they are adjusted. Are there any items on the debit side to which you might take exception as constituting a drain on the economic resources of India? (C. U. 1915).

Ans. *See*—Ch. XIII, Sec. 2 also Chapter on Public Finance.

Q. 6. India is called a debtor country on account of her many foreign obligations. What is the nature of these obligations? Explain the process by which they are discharged. (C. U. 1912).

Ans. *See*—Ch. XIII, Sec. 3.

Q. 7. Analyse India's exports. Hence examine the arguments for and against protection. (C. U. 1920).

Ans. *See*—Ch. XIII, Secs. 8 and 10.

Q. 8. State the probable advantages or disadvantages of the inclusion of India in a scheme of Imperial Preferential Tariff? (C. U. 1921).

Ans. *See*—Ch. XIV, Sec. 12.

Q. 9. Discuss the advantages and drawbacks of the imposition of protective duties on the manufactured imports of this country. (C. U. 1921).

Ans. *See*—Ch. XIV, Sec. 1.

Q. 10. It is sometimes suggested that heavy duty should be levied on the export of food grains from India with a view to conserve India's food supply for her own use. Argue the case for and against such a proposal. (C. U. 1923).

Ans. *See*—Ch. XIV, Sec. 6.

Q. 11. Examine the probable effect of a policy of protection on the economic condition of the agricultural population of this country. (C. U. 1921).

Ans. *See*—Ch. XIV, Sec. 10.

Q. 12. "In the modern era of international commerce every civilized nation makes a number of payments to foreign countries and receives a number of payments from foreign countries"; consider the different heads under which these payments are made and received by India. (C. U. 1923).

Ans. *See*—Ch. XIII, Sec. 3.

Q. 13. State the circumstances in which you would decide to protect an Indian industry against foreign competition. What are the different methods by which you could do it? Discuss the relative merits of each. (C. U. 1930).

Ans. *See*—Ch. XIV, Secs. 5 and 10.

Q. 14. Describe the chief features of India's foreign trade and account for the normal excess of her exports over her imports. (C. U. 1931 and 1939).

Ans. *See*—Ch. XIII, Secs. 6 and 7.

Q. 15. Do you think that it will be to the best of interests of India that she should now be included in any scheme of Imperial Preference? Give reason for your answer. (C. U. 1931.)

Ans. *See*—Ch. XIV, Sec. 12.

Q. 16. Give an account of the movement for Imperial Preference with the British Empire.

Ans. *See*—Ch. XIV, Sec. 13.

Q. 17. Write short notes on the Ottawa Conference.

Ans. *See*—Ch. XIV, Sec. 13.

Q. 18. On what grounds has the policy of discriminating protection been adopted in India ? Take any protected industry, and show how far the policy has been succeesful. (C. U. 1936).

Ans. *See*—Ch. XIV, Secs. 9 and 10(*a*).

Q. 19. How far do you think the policy of discriminating protection by the Government of India is justified ? Discuss the economic effects of such a policy. (C. U. 1934).

Ans. *See*—Ch. XIV, Secs. 8 and 10.

Q. 20. Mention the chief articles of India's export and import trade and discuss their economic importance. (C. U. 1938).

Ans. *See*—Ch. XIV, Sec. 8.

Q. 21. 'Our exports pay for our imports'. In what sense and with what limitations is this statement true ?

Ans. *See*—Ch. XIV, Sec. 5.

Q. 22. What do you understand by discriminating protection ? How far has this policy been successful in developing Indian industries. (C. U. 1940).

Ans. *See*—Ch. XIV, Secs. 1 and 10(*a*).

Q. 23. Show how India's foreign trade has been affected by the present war. (C. U. 1944).

Ans. *See*—Ch. IXIV, Sec. 21.

CHAPTER XV

CURRENCY

Sec. 1. Early History.

The reference of Money in ancient writings.

In the primitive community use of money was unknown. Things were exchanged for one another. There was thus the barter system of exchange. As civilisation began to advance the disadvantages that followed from such a system of exchange were keenly felt by the people and in consequence, the system had to be replaced by a monetary system of exchange. Evidence of various character proves that India has been using money as a medium of exchange since the time of which we have historical record. Perhaps it will be no exaggeration to say that India adopted this system at a time when the civilized nations of the present world were completely ignorant of its use. The reference of metallic system of exchange in the Vedic writing as well as in the religious codes of Manu bears witness to the fact that metallic money was used in those days.

Gold and silver coins.

In the Hindu period both gold and silver served the purpose of medium of exchange. The coinage of silver, however, began earlier than that of gold because the former, as the historians tell us, was more valuable than the latter during that time. There were other kinds of money in circulation. Of these copper and shells played an important part inasmuch as they were used in making small payment. The coinage was not sole prerogative of the sovereign in these days and private persons were often found to undertake the coinage of money.

Several experiments.

The Mahomedan period is remarkable for several important experiments and innovations in the currency system. The first experiment dated as early as 1233 A.D. when Sultan Altamash introduced silver tankas. This tanka underwent certain changes during the Pathan and the Moghul rule. Mahamed Tughlak acted upon the silver tankas by reducing it to the position of a debased coin but this attempt did not prove a success. Next came Sher Shah who abolished all coins of lower denominations and substituted 'tanka' by 'rupya'. Our modern rupee is said to have descended from rupya, the silver coin introduced by Sher Shah. In the subsequent period Akbar the Great tried his best

to reform the then currency system by introducing one uniform standard but his efforts were not crowned with success. However, it cannot be denied that he improved the system of currency to some extent. Attempts were made during this period for prohibiting private coinage, but although private coinage was checked the independent chiefs and princes enjoyed the privilege of coining money according to their sweet will and pleasure with the result that there were as many as 994 kinds of gold and silver coins in circulation when the East India Company came for the first time to rule over India.

Absence of one uniform standard of value.

During the earlier period of the Company's rule the different provinces of India had different standards of value. In Bengal and some other provinces the silver standard prevailed while Madras was fortunate enough to maintain the gold standard with gold currency. These different standards of value gave rise to serious incouveniences, and the necessity of one uniform standard was keenly felt by the East India Campany. The East India Company could not achieve their end at once but they had to proceed gradually. The first step that was taken by the Company in pursuance of their object was to introduce in Madras the silver rupee of 180 grains as a suitable substitute for the Gold Pagoda. The next step was taken in 1835 when a monometallic silver currency was introduced for the whole of India. The silver rupee that was made the standard coin in 1835 weighed 180 grains and contained 165 grains of silver. In order to facilitate the acceptance of silver coin as unlimited legal tender the Company demonetised gold or in other words enacted that gold coins would not be recognised as legal tender of payment : but in spite of this enactment regarding the demonetisation of gold the Government authorised the coinage of gold mohar by the Act of 1835 and advised the officers by the proclamation of 1841 to accept the gold mohars at the ratio 1 : 15. This proclamation remained in force till 1852 when on account of the fall in the value of gold occasioned by the excessive supply of gold from Australia the Government had to withdraw the above proclamation. This was done during the administration of Lord Dalhousie and thenceforward the treasury refused to accept gold mohars in payment of what was due to the Government from the people. Thus gold mohars completely ceased to be legal tender of payment. The demonetisation of gold created a stringency in the money market and people prayed for introduction of gold currency.

Silver monometalism introduced in 1835.

Adoption of gold standard.

In 1864 a notification was issued authorising the treasury to accept sovereigns and the half-sovereigns at rates 1 : 10 and 1 : 5 respectively. This did not bring a gold currency for India. In 1866 on a representation made by the Calcutta Chamber of Commerce for the adoption of gold currency the Government appointed the Mansfield Commission. The Commission recommended the introduction of gold currency and the issue of gold coins of 15, 10, and 5 rupees. The Government did not give effect to these recommendations for reasons which they knew best.

We have already seen that in 1835 a monometallic silver currency was introduced in India. Under this system the silver coin was a standard coin inasmuch as its face value represented its bullion value. Again, mints were open to the free coinage of silver; people could approach the mint with silver bullion in hand and get it converted into coins at the mint. The value of silver rupee was therefore dependent upon the demand and supply of the metal.

The depreciation of the value of silver.

This system of currency continued without interruption till 1873 when a change came upon the demand and supply of silver, The supply of silver increassd very much on account of the discovery of new silver mines. The inevitable consequence of this increased supply was a fall in the value of silver with reference to gold. Again, this fall in the value of silver was accentuated by the demonetisation of silver by civilized countries like Germany, Sweden, Norway and Denmark. At that critical moment the United States of America decided to repeal the Sherman Act under which the Government was required to purchase 54 million ounces of silver for annual coinage. For these reasons the rate of exchange began to take a downward course and in 1892 the value of rupee was fixed at 1*s*. 3*d*. as against 2*s*, which represented its value in 1871. Such a constant fluctuation in the rate of exchange had its worst effect on the trade and industry and the Government of India was faced with a great diffiulty in connection with the framing of budget and payment of Home Charges. The Government of India suggested in 1878 the introduction of gold standard but this suggestion was not approved of by the British Government. The Government of India was in a very precarious position on account of the disorganisation of its finance caused by the ever-fluctuating character of Indian Exchange. In 1892, the Government of India, again approached the Secretary with a prayer for closing the India's mints to the free coinage of silver. A Committee known

as the Herschell Committee was therefore appointed so that it might make recommendation concerning the reform that should be introduced in the currency system of India. Before studying the recommendations of the Commission it will be worthwhile to summarize the evils that followed from the falling exchange.

Herschell Committee.

Sec. 2. The Disadvantages of Falling Exchange.

(1) The Government of India suffered a great loss in connection with the payment of Home charges. It had to pay a huge amount of sterling as Home charges : but every fall in the value of rupee made its obligation more burdensome because such a fall had the effect of increasing the fixed amount of sterling which could liquidate the Home charges.

(2) The Budget of the Government became a gambling transaction inasmuch as the Government could not, on account of the fluctuating character of Indian exchange determine definitely the amount of rupees that would be required for discharging its foreign obligation. The Government was, therefore, not in a position to adjust its income to the expenditure.

(3) As the amount of Home charges increased in terms of rupees, the Government had to impose additional taxes upon the people.

(4) The importers were affected by the falling exchange because every fall in the exchange meant an increase in the number of rupees that would be required for paying the price of imported commodities. Thus the import trade about 74 per cent of which had reference to gold-using countries was discouraged to a very great extent.

(5) The falling exchange reduced the supply of foreign capital. This was due to the fact that the falling exchange consumed a large part of the profits that could be derived from investment of foreign capital. The foreigners invested capital with a view to deriving a higher rate of interest or profit from such investment, but on account of the falling exchange the huge profit derived in terms of rupees could fetch only few sovereigns.

(6) The European who had been serving under the Government of India and who received their salary in terms of rupees felt keenly the effect of falling exchange when they had to make remittances for the maintenance of their dependents in England or for any other purpose.

(7) The borrowing power of the Government of India was

curtailed to a very great extent as the falling exchange reduced the demand for Government securities in foreign countries.

Sec. 2(a) How to Cope with the Situation? The Recommendations of the Herschell Committee.

Recommendations summarized.

The Herschell Committee which was appointed in 1892 to find out a solution of the grave currency problem and to consider the Government proposal regarding the closing of the mints to the free coinage of silver and the adoption of the gold standard, made the following recommendetions :—

(1) The mints should be closed to the free coinage of silver, that is to say, private persons would not get silver coins in exchange for silver bullion, but the Government should have the power of issuing rupees if the circumstances of the time required coinage of rupees. The silver rupee should continue to be unlimited legal tender.

(2) That the Government Treasuries should be authorised to accept gold sovereigns at the ratio 1 : 15 in payment of revenue to the Government.

(3) That gold coins and bullion should be received at the mint at the rate of 1*s*. 4*d*. to the rupee. The use of gold should thus be encouraged during the period of transition with a view to speeding up establishment of gold standard in near future.

Sec. 3. The Currency Act of 1893: its effects.

Act of 1893.

The first recommendation ef the Committee regarding the closure was given effect to by the Government by three notifications. The first notification provided for giving rupees in exchange for gold coin and bullion presented at the mint at the rate of 16*d*. to the rupee. The second notification authorised the treasuries to receive sovereigns and half-sovereigns at that rate and the third notification directed the currency offices to issue notes in exchange for gold coin or bullion at that rate. The object of this Act and notifications was to force up the exchange value of the rupee and to encourage the use of gold before steps were taken for the introduction of a full-fledged gold standard.

Scheme of closing the mint.

The scheme was based on the Quantity Theory of money. The exchange value of the rupee was then taking a downward course and the exchange value could not be raised unless the supply of rupees was restricted. The closure of the mint was therefore the best

remedy because it took away the privilege of private persons to increase the supply of rupees by converting the bullion in their possession into coins.

The closure of the mint, however, was not followed by a rapid rise in the exchange value ; on the other hand there was a more rapid fall in Indian Exchange. This decline in the value of silver rupees was mainly due to withdrawal of currency from private hoards and the repeal of the Sherman Act. The ultimate effect of the closure of the mint was a steady rise in Indian Exchange and in 1898 the exchange value of the rupee became 15·9*d*. The Government managed to raise the exchange rate to this level by artificially contracting the currency at a time when the trade was very brisk.

The exchange value of the silver rupee came to have little or no reference to the value of silver contained therein. The face value of the rupee became higher than the bullion-value because of the restriction placed on the coinage of rupee. The Government came to have a supreme control over currency affairs but it could not adjust the supply of currency to meet the increased demand. Again, although the Government authorised the mints as well as the treasuries to accept gold at the rate of 1*s*. 4*d*., gold had not been made legal tender thereby. The silver rupee which was reduced to the position of a token coin continued as legal tender to an unlimited extent.

Sec. 4. The Objects of the Act of 1893 and the Notifications.

Prime object was to raise the rate of exchange.

(1) The prime object of the Act of 1893 which closed the mint to the free coinage of silver was to restrict the coinage of rupees and thereby to raise the exchange rate. Government was very much in favour of a rise in the exchange rate because that would reduce its sterling obligation. The prevailing rate at the time was about 1*s*. 2*d*. and the Government intended to raise it to 1*s*. 4*d*. This end of the Government could not be realised except by shutting the doors of the mint against private persons demanding rupees in exchange of silver bullion.

(2) The next important object was to check the supply of silver. As free coinage was abolished the importation of silver for the purpose of coinage would be discouraged in future.

(3) The rise in exchange rate which would be effected by the closure of the mint would go to encourage the importation of foreign capital in India to the improvement of Indian Industry.

(4) The Government would require smaller amount of rupees for discharging its obligation in connection with the payment of Home charges. Such an economy in the expenses of the Government would ultimately lead to a reduction of taxation.

(5) The two notifications by which mints and the treasuries were authorised to accept gold coins or bullion at the rate of 1*s*. 4*d*. to the rupee would familiarize the people of India with the use of gold coins and thereby facilitate the introduction of gold standard and gold currency in India.

Sec. 4(a). The Objections against the Closure of the Mint.

The closure of the mint to the free coinage of silver was vehemently criticised by the Indian public. We shall now discuss the main grounds on which the criticisms were based.

How it affected the the poor.

(1) The poor persons were prejudicially affected by the Act of 1893. In India they generally invest their savings in silver ornaments and these ornaments are sold when they are urgently in need of money. Before the closure of the mint they could approach the mint with these ornaments and get them converted into rupees: but the withdrawal of this privilege forced them to sell these ornaments at a price which could fetch smaller amount of rupees.

Difficulty of the Bombay mill owners.

(2) The Bombay mill-owners had to suffer the consequence of the Act to a great extent. They had commercial dealings with China and other silver-using countries and were paid in term of silver bullion. The silver bullion so obtained could not be converted into coins because of the closure of the mints. They had no other alternative than to sell the silvar bullion at the market price which was lower than the mint price of silver.

Agriculturists were injured.

(3) The agriculturists also were hard hit by such an Act inasmuch as the rise in the exchange value of the rupee which was effected by the artificial contraction of currency in circulation had the effect of lowering the price of agricultural products. On the other hand they were given no concession in respect of the payment of their rupee debts.

(4) The closure of the mint, it was argued, would interfere with the progress of industries by lowering the price of the products.

(5) The face value of the rupee would be higher than the bullion-value and the huge profit that would accrue from the coinage of rupees would tempt others to counterfeit coins.

(6) The closure of the mint was not at all necessary to remove the difficulties which the Government was faced with during the time of falling exchange. The Government suffered a great loss in connection with the payment of sterling obligation and the best remedy would have been to reduce the amount of Home charges.

(7) The closure of the mint would make the currency system less automatic and thus create a stringency in the money-market to the detriment of trade and industry.

Sec. 5. The Fowler Committee and the Gold Exchange Standard.

The Act of 1893 which closed the mint to the free coinage of the silver failed to raise the exchange rate immediately; its ultimate effect, however, was a rise in exchange. Proposals were made during this time for the introduction of gold standard in India. The Secretary of State had to appoint a Committee known as the Fowler Committee to consider these proposals and to make necessary recommendations. To this Committee were forwarded several schemes; one such scheme came from Mr. Probyn.

Issue of gold notes.

(1) *Probyn's scheme*:—The scheme had for its object the convertibility of silver rupee and silver-rupee-notes into gold but this could not be possible unless there was sufficient gold fund with the Government. It was therefore suggested that gold notes of the amount of Rs. 10,000 each should be issued against gold presented to the Government by the people and these notes should be convertible into gold or rupees at the option of the holders. In this way a gold reserve would be established which would ultimately ensure the convertibility of rupees and rupee-notes into gold. It should be noted in this connection that the scheme suggested, in essence, the introduction of gold bullion standard. It did not recommend the introduction of gold currency in India because it was thought that the Indians would hoard gold if such system was ever introduced.

The Fowler Committee to which this scheme was referred rejected it on two grounds—first, the danger of hoarding which was apprehended and which stood against the introduction of gold currency did not appear to the Committee to be very great; secondly, it was not proper that India's internal currency should consist of token silver coins and rupee-notes for all time to come.

Lindsay's scheme :—This scheme suggested the convertibility of rupees into sterling at a certain fixed rate when payment was to be made in foreign countries where rupees would not be accepted.

Suggested method of an international payment.

This sterling should be supplied by the Government by selling sterling drafts which should be redeemed into sterling by the Secretary of State. It also provided for the sale of rupee-drafts at a fixed rate in London. This scheme could not be successful unless there were sufficient funds—a sterling fund in London and a rupee fund in India—which would enable the Government to redeem both sterling drafts and the rupee-drafts without difficulty. The scheme, therefore, recommended the constitution of a fund by a loan of £ 10 millions. The internal currency should, as the scheme suggested, consist of rupees and rupee-notes and they would remain unlimited legal tender.

The Fowler Committee rejected the above scheme on the following grounds—

(1) The permanent adoption of such a peculiar form of currency system was not desirable. Again, the Indian opinion which demanded the introduction of gold standard and gold currency would not look upon the suggested scheme with favour.

(2) The issue of sterling-drafts to an unlimited extend would increase the liability of the Secretary of State and the fund contributed by loan might not be sufficient for the redemption of those drafts.

The scheme is important inasmuch as the Government in its attempt to give effect to the recommendations of the Fowler Committee for an effective gold standard drifted towards a system which was based upon this scheme. The Government did not introduce gold standard and gold currency in India, on the other hand it adopted a system which was similar to that suggested by Mr. Lindsay and this system was technically known as Gold Exchange Standard.

Sec. 6. The Recommendations of the Fowler Committee.

(1) That the exchange rate should be fixed at 1*s.* 4*d.* The exchange value of rupee was at that time 1*s.* 4*d.* and the Committee was convinced that it would remain so in future and that the adoption of that rate would not prejudicially affect the trade and industry. The Committee, therefore, recommended that the exchange-rate should be stabilised at the rate (1*s.* 4*d.*).

Ratio be fixed at 1*s.* 4*d.*

(2) That the Government should be ready to exchange rupees for gold presented by the public and in this way gold would accumulate. No fresh coinage of rupees should be made unless and until the gold fund so accumulated is more than sufficient to meet the demands for gold.

(3) That the mints should be thrown open to the free coinage of gold and in this way India would have the system of gold standard and gold currency.

(4) That the British sovereigns should be made unlimited legal tender at the rate 1 : 15. This would have the effect of familiarising the people of India with the use of gold and would lead to circulation of British sovereigns in India.

(5) That the profits derived from the coinage of rupees should go to constitute a fund and this fund would help the Government in converting rupees into sovereigns ; but at the same time the Committee recommended that no obligation should be thrown upon the Government to convert rupees into gold.

(6) That the rupee should continue to be unlimited legal tender.

Sec. 6(a) The Government action on the report. The Introduction of Gold Exchange Standard.

Act of 1899.

The above recommendations of the Fowler Committee were accepted almost entirely by the Government of India and the Act of 1899 was passed which made sovereigns and half-sovereigns legal tender at the ratio recommended by the Committee.

An attempt was made to establish a branch of the Royal Mint for coinage of gold but the scheme was ultimately abandoned on account of the opposition of the British Treasury. A Gold Standard Reserve Fund was constituted in 1900 out of the profits of rupee coinage. An attempt was also made to introduce sovereigns into circulation but these sovereigns soon returned to the Treasury. The experiment thus failed and the Government was compelled to take to coinage of rupees to remove the stringency of money market.

Although the Fowler Committee did not accept Lindsay's scheme, the exchange policy of the Government gradually took a course which ultimately led to the establishment of the Gold Exchange Standard which had the following characteristics.

(1) The local currency consisted of silver-rupees and rupee-notes.

(2) The rupees were not necessarily redeemable in gold. The Government might redeem them in gold if it had enough gold funds with it.

Characteristics.

(3) The Government took upon itself the responsibility of providing the people with sterling at a certain maximum rate when people required the same for making foreign payments. This is the reason why the system is termed as gold-exchange standard.

(4) The reserves created out of the profits of rupee-coinage were kept both in London and in India in order that the sterling-drafts and council bills with which payment between England and India would be made, might be redeemed into sterling and rupees respectively.

4(*a*) To facilitate the convertibility of council bills the Secretary of State was authorised by Act II of 1898 to transfer the gold proceeds of the sales of council bills to the Indian Paper Currency Reserve to be located at the Bank of England and the Government of India was authorised to issue notes against the gold so deposited.

(5) The silver rupees though they were token coins, were legal tender to an unlimited extent.

Sec. 7. How the Gold Exchange Standard was maintained.

The Government sold reverse councils.

The Gold Exchange Standard system could continue so long as the rate of exchange could be maintained. The Government succeeded in maintaining the exchange rate by checking the fall in Indian exchange by selling reverse councils or sterling drafts at 1*s*. $3\frac{29}{32}d$. When the exchange fell to this point the Government began to sell sterling-drafts and thereby provided the people with gold or sterling that might be required for making foreign payments. These sterling bills were drawn upon the Secretary of State who was to redeem them into sterling. Hence there was the necessity of a sterling fund to be located in London which would enable the Secretary of State to convert bills into sterling. This fund, as we all know, was created out of the profits of rupee coinage in accordance with the recommendation of the Fowler Committee. We should care to note in this connection that the sterling drafts, or Reverse councils were sold at the rate 1*s*. $3\frac{29}{32}d$. because unless the rate comes down to that level there would be no necessity for exportation of specie out of India. The Government of India took upon itself the responsibility of providing the people with sterling at the above rate when they would require the same for making foreign payments and thus prevented a fall of the exchange rate below 1*s*. $3\frac{29}{32}d$.

Council bills at 1s. $4\frac{1}{8}d$.

On the other hand the rate of exchange could not rise above 1s. $4\frac{1}{8}d.$, because in that case foreigners would think it profitable to export gold to India in making payments to India and this gold would be presented to the Government of India and rupees would be exchanged for gold. Thus the supply of these rupees which were so long locked up in treasury would go to reduce the exchange value of the rupee. The same result would follow if instead of sending gold coins directly the foreigners purchased council bills from the Secretary of State and made payment therewith. In this way a rise in the exchange rate was checked.

Crisis of 1907-08.

The currency system went on smoothly till 1907 when on account of a serious famine in Northern India, India had an unfavourable balance of trade. As a result of this unfavourable balance Indian exchange began to fall and in 1908 it fell below the specie point. The exchange value of the rupee then stood at 1s. $3\frac{29}{32}d.$ The heavy fall was partly due to the American monetary crisis. To check the fall in exchange the Government sold reverse councils in sufficient quantities with the result that the gold fund in London was almost exhausted. Tho Secretary of State had to release gold from the Paper Currency Reserve in London against a transfer of rupees to the same reserve in India. The demand for the encashment of reverse councils increased so much that the Secretary of State had to sell the sterling securities in the Gold Standard Reserve at a depreciated price. This was the first time when the Government experienced the difficulty of maintaining the exchange rate during the time of crisis. However, the exchange rate was again restored to 1s. 4d. because of the contraction of curreney that was brought about by the sale of reverse councils and the fall in prices leading to an increase in India's exports in later years. The Gold Exchange Standard system then continued smoothly till 1916 when it had to give way on account of the abnormal rise in the value of silver.

Sec. 7(a). The Chamberlain Commission and its recommendations.

The Government failed to maintain exchange.

The currency system of India became the subject of severe criticism and the Indian public persistently demanded the introduction of gold standard and gold currency in India. In 1911 resolution was moved in the Imperial Legislature by Sir Damodar Vithaldas Thakersay for the adoption of gold currency. The question was referred to the Chamberlain Commission which began its enquiry in 1914. This Currency Commission opined that gold currency was not

an essential condition of the gold standard and that India should not encourage the introduction of gold coins in circulation. The Commission laid stress upon the maintenance of the exchange rate and recommended that sufficient Reserve in gold and sterling should be accumulated for that purpose. Other recommendations which the above commission made were the abolition of the Indian Branch of the Gold Standard Reserve and the location of the entire reserve in London.

Sec. 8. The War and the Breakdown of the Gold Exchange Standard.

Cause for the rise in exchange.

The Gold Exchange Standard went on smoothly for a long period of tim: but the Great War shook the system to its very foundation and ultimately caused its breakdown. The Government of India succeeded in maintaining the exchange rate till 1916 but later on it had to leave the rate of exchange to its own fate. There was a heavy rise in Indian exchange and it became impossible for the Government to maintain the exchange rate without incurring loss. It is interesting to study the causes that were responsible for the rise in Indian balance Exchange during the war time. First, there was the favourable balance of trade for India which meant that the export was greater than the import. This was occasioned by the excessive demand for Indian articles in belligerent countries. India had to provide the allied powers with articles that were necessary for the purposes of consumption and war. Again, the export trade of India was augmented during this time by the exportation of capital from India to finance the war and by the invisible exports of war services. The people of India actually fought for their sovereign and the service so rendered might be described as an invisible export to be entered into the credit side of India. All these factors accounted for the abnormal increase of India's export during the war period : the import trade of India did not increase but it declined greatly beeause the beiligerent countries could not produce regularly the articles that they usually produced for other countries. Another cause of the decline in the import trade was the restriction imposed by the belligerent countries on the importation of precious metals from them. This decline in Indian imports made the balance in favour of India very large. India therefore became a creditor country to the extent of the excess of her exports over imports. The demand for Indian bills increased in foreign countries and in consequence the exchange value of rupee rose very high. The demand for silver rupee was very intense but the supply of that metal

Export increased and import decreased.

diminished greatly due to several causes. The cost of production of the metal increased and the internal disturbances in Mexico led to a great shortage in the supply of silver. The value of silver, therefore, began to rise and it rose so much that it became impossible for the Government of India to maintain the exchange rate at 1*s*. 4*d*. Another important factor which influenced the rise in Indian Exchange was the character of dollar-sterling exchange during the war time. English sterling was depreciated in terms of gold dollar because Great Britain had to adopt an inflationary policy to meet her military expenditure. The rate of exchange between gold dollar and English sterling was pegged at $4·76 : £1 for facilitating trade between these two countries, but in March, 1919 the dollar-sterling exchange was left to its own fate and the result was that it fluctuated and reached as low a level as $3·40 : £1 sterling, This depreciation of sterling led to a rise in the sterling price of silver because the Secretary of State had to pay the price of silver purchased from America in terms of dollar. The silver contained in one rupee became more valuable than 1*s*. 4*d*., and therefore it reached the maximum point of 2*s*. 4*d*., in 1919. The Gold Exchange Standard which could continue only so long as the rate of exchange could be maintained by the Government thus broke down on account of the failure of the Government to maintain the exchange rate at 1*s*. 4*d*.

Sec. 9. War and the Increased Demand for Silver coin.

During the war time India had a large balance of trade in her favour. This increased the demand for council bills and the council bill could be redeemed in silver rupees or silver rupee notes. The increased sale of council bills reduced the Paper Currency Reserve to a great extent and endangered the convertibility of notes issued against such reserve. Secondly, the war caused uneasiness among the people and they were very anxious to convert their notes into silver rupees, This apprehension on the part of the people of India was responsible for the rapid absorption of rupees during the war period. Thirdly, the circulation of currency became less rapid and whatever money was issued by the Government remained in private hoards because they curtailed their expenditure on account of the rise in prices. Fourthly, the provision of banking facilities was too inadequate for this vast country and in consequance, a large quantity of metallic money was ordinarily necessary for exchange purposes. Fifthly, the demand for silver coin increased because the intrinsic value of silver contained in the rupee was higher that its face value and people were tempted to melt it in order to earn some profit. Sixthly,

Favourable balance of trade.

arrangement had to be made for financing the trade of the Dominions with India. Lastly, the Government of India undertook the responsibitity of incurring certain expenses on behalf of the British war office and it needed a large stock of rupees to discharge its responsibility.

This abnormal demand for the white metal led to an abnormal rise in the value of silver. The rise was further accentuated by the progressive depreciation of sterling in the New York-London exchange because silver had to be purchased in America and payment had to be made in terms of dollars.

Sec. 10. The Measures taken by the Government.

Sale of council bills was reduced.

The demand of Indian currency increased very much on account of India's heavy favourable balance of trade. The Government could meet this increased demand for currency in the following ways—(1) The Secretary of State might sell council bills in response to trade demands but in that case the obligation would be thrown upon the Government of India to redeem them into Indian currency. At first council bills were sold in enormous quantities but it was found that such sale taxed very much the capacity of the Government to redeem them and endangered the convertibility of notes by reducing the Paper Currency Reserve. The Secretary of State had therefore to reduce the sale of council bills by restricting such sale to approved banks that were engaged in financing the articles required for military purposes merely. Hence these approved banks ceased to give any opportunity to the exporters of other commodities for discounting their bills of exchauge. (2) The next method which the Government might possibly adopt in meeting the increased demand for Indian currency consisted in increasing the issue of notes against deposits of gold in the Londou portion of the Paper Currency Reserve; but there was a limit to such issue of notes. The coinage of silver would be necessary to increase the silver reserve, otherwise the convertibility of notes would be at stake. The Government of India increased the issue of notes so much that it had to suspend the extra-legal facilities for conversion and to restrict the daily issue of rupees to a single tenderer of notes. (3) The third method by which the excessive demand for currency could be met was the purchase ef silver for coinage in India but the supply of silver fell very much during that time leading to a rise in the value of that white metal; again, the demand for silver increased very much because not only India but also other countries required a large quantity of silver for the purpose of coinage. The Government of

India entered into a negotiation with the Government of the U. S. A. and purchased a large quantity of silver for the purpose of coinage. (4) The fourth method which the Government had to adopt to meet the excessive demand for currency was the opening of a branch of the Royal Mint at Bombay for the coinage of gold mohurs. (5) An economy in the use of silver was effected by the issue of nickel coins of the denominations of 2 annas. 4 annas and 8 annas. (6) The last alternative that was left open to the Government of India to meet the excessive trade demands for currency was to borrow money from the public and to use that money in redeeming the council bills drawn by the Secretary of State ; but the method could not be very much effective when the demand for Indian currency was very great.

Sec. 11. The War and the Paper Currency Reserve.

Causes of reduction of the Paper Currency Reserve.

During the war time there was an increased demand for council bills on account of India's favourable balance of trade. The sale of such bills led to the withdrawal of large sum of rupees from the Indian portion of the Paper Currency Reserve. This reserve could be augmented only by extra coinge rupees but the Secretary of State failed to purchase silver in adequate quantity partly on account of the diminution in the output of silver and partly on account of the restriction imposed by other countries on the exportation of precious metal. Again, the Paper Currency Reserve was reduced during that time for another important reason. The people of India doubted the stability of the Government and in consequence there was rush for the encashment of paper-notes. In 1917 and 1918 India's absorption of rupees was so great that the reserve fell to eleven crores of rupees. The runs on Paper Currency Reserve continued unabated with the result that the reserve was at one time reduced to Rs. 4 crores against 90 crores of rupee-notes. The convertibility of notes was then in danger. The Government tried its utmost to increase the supply of silver for coinage by restricting the importation of silver on private account and by prohibiting the exportation of silver coin and bullion from India. Again, arrangement was made at that time with the Government of the United States of America and as a result of that agreement the Pitman Act was passed in 1919. The Act provided for the sale of 100 million ounces of pure silver at a fixed price to the Secretary of State for India. The supply of silver was thus increased and the Government by extra coinage of rupees managed somehow or other to meet the increased demand for currency within the country.

Sec. 12. The Rise in Indian Exchange: its effects.

We have seen in the preceding sections that during the war time the Indian Exchange began to rise due to two-fold cause, viz.:—

Breakdown of the Gold exchange Standard.

(1) The rise in the value of silver and (2) an increase in the demand for silver occasioned by the large balance of trade in India's favour. The Government of India failed to maintain the exchange rate at the pre-war level and the exchange rate went on rising till at last it reached the maximum point in 1919. The rising exchange had its effect upon the export trade of the country. The export trade of India was discouraged because every rise in the exchange value of the rupee reduced the value of the exported commodities in terms of rupees. The exporters had to draw their bills of exchange in terms of £. *s. d.* and the rise in Indian exchange meant that their bills of exchange would fetch less number of rupees: but the export trade of India did not decrease so long as the demand for Indian commodities in Europe was very intense and the price for Indian commodities was higher in terms of £. *s. d.* When the demand for Indian commodities from European markets fell the export trade began to take a downward course. The import trade of India would be encouraged by the rise in exchange inasmuch as importers would have to part with smaller amount of rupees in paying the price of the imported commodities in terms of £. *s. d.* but the import-trade would not increase at once because the importers would postpone their purchase with a view to deriving higher profits. Stimulus to the import trade and discouragement to the export trade would ultimately lead to an equilibrium between export and import trade.

The importation of the foreign capital into India would be hampered because more sovereigns would be required to make a fixed amount of investment in terms of rupees and every rise in the value of English sovereign which might possibly happen in future would reduce the investment when the date of repayment would come; on the other hand the rise in Indian Exchange would stimulate the exportation of capital from India because smaller number of rupees would be necessary to make a fixed investment in terms of sovereigns and when the exchange value of sovereign would rise in future the investment would fetch large amount of rupees.

The consumers would not derive much benefit from the consumption of imported commodities because the fall in English exchange would lead to a rise in prices in £. *s. d.* Again, the Indian exporters would raise the price of the exported commodities in £. s. *d.* and this would influence the internal prices of commodities. The Europeans

in India having their income in rupees would gain much when remitting a part of their income to their native countries for the maintenance of their dependents there because they would have to part with smaller number of rupees in making the required amount of remaittance.

The Government of India would gain much in the matter of payment of Home charges because such obligation could be discharged during rising exchange with smaller amount of rupees.

Sec. 13. The Gold Standard Reserve.

Reserve was necessary because the exchange rate could not be maintained otherwise.

The Fowler committee recommended that the profits derived from the coinage of rupees should not be used for augmenting the revenue of the Government but should be kept in a separate reserve. In accordance with this recommendation a reserve technically known as the Gold Standard Reserve was constituted in 1900. Such a reserve was necessitated by the peculiar system of currency which was introduced in India. The Gold Exchange Standard system could not continue unless the Government could supply the people with gold at a certain maximum rate whenever it would be required for making foreign payment. This obligation on the part of the Government could not be discharged unless there was sufficient fund with the Secretary of State. The question of making foreign payment arose specially during the unfavourable balance of trade when the rate of exchange reached the specie export point of 1*s.* $3\frac{29}{32}$*d.* It was during this time that the Government of India used to supply people with gold or sterling by selling what was known as sterling drafts. These sterling drafts were drafts issued upon the Secretary of State for India and in consequence threw upon him an obligation to redeem them in terms of sterling; but the Secretary of State could not discharge his responsibility in this connection unless he was provided with sufficient amount of sterling funds in London. The location of Gold Standard Reserve Fund in London helped the Secretary of State in redeeming the sterling drafts into sterling.

The whole fund was kept in London and some portion of it was invested in British securities till the year 1906 when the Government of India decided to keep a portion of the reserve in India in terms of silver. Again in the year 1907 it was decided that half of the profit from coinage of rupees should be used for capital expenditure on Railways and in pursuance of this decision near about £1 million was spent out of the profits from coinage for Railway purposes; but on account of the diminution of the reserve the decision was soon

reversed. The Indian portion of the Reserve continued to exist till 1914 when in accordance with the recommendation of the Chamberlain Commission it was abolished and the whole reserve was transferred to London. The Currency Commission that was appointed in 1919 recommended that a portion of the gold held in Gold Standard Reserve should be kept in India. Since 1921-22 the total Reserve has been kept at £40 millions and the excess over £40 millions was spent in 1921-22 in cancelling the created securities and since 1922-23 had been transferred to the general revenue of the Government. The Hilton Young Commission recommended an amalgamation of the Gold Standard and Paper Currency Reserves and a statutory provision as to the composition and proportion of the combined reserve. The Reserve Bank of India Act, 1934 secured unification of the two reserves, prescribed the composition of the unified reserve and made provision for the transfer of the Reserve to the newly created Reserve Bank of India along with the transfer of note issue to the said Bank.

Sec. 14. The Criticism of the Location.

Previous to the creation of the Reserve Bank of India and the transfer of the Gold Standard Reserve and Paper Currency Reserve to the said Bank, the Secretary of State used to keep substantial portion of the Gold Standard Reserve and some portion of the Paper Currency Reserve in London. These reserves were sometimes mixed up with the cash balances of the Secretary of State and indiscriminately used for various purposes. Again, substantial portion of the Gold Standard Reserve was usually invested in long-term sterling securities to remove the stringency of London money-market.

The Indian opinion vehemently criticized the location of the entire fund (Gold Standard Reserve) and the investment of it at a nominal rate of interest in London. The fund belonged to India but it had been used for removing stringency of the money-market of London while the Indian trade and industries were suffering greatly for want of capital. It was rightly contended that the Reserve or at least a part of it should be kept in India and lent to Indian banks so that stringency of the Indian money-market could be removed.

It was also argued that investment in sterling securities would entail serious loss in case of depreciation of sterling. In fact India sustained such loss on account of the depreciation of the sterling in recent times.

In answer to the above criticism the Government said that India had nothing to do with gold and gold had been kept where it was wanted. The main object of the Gold Standard Reserve was to provide the Secretary of State with fund in connection with the maintenance of Indian Exchange with which responsibility he had been charged till the creation of the Reserve Bank. When during the unfavourable balance of trade for India the Government of India had to sell Reverse councils in order to maintain the exchange rate the Secretary of State was to redeem them into sterling and this the Secretary of State would surely fail to do unless he had sufficient funds with him. Hence it was argued that the Gold Standard Reserve should be kept in London in its entirety. There is little force in this argument because an unfavourable balance of trade was a rare phenomenon in India and could be conveniently liquidated by transfer of fund from India. As against the criticism that had been advanced against the investment of the Reserve in sterling securities the Government of India said that the investment was made because the gold fund increased considerably and that it was useless to keep such a large amount of fund idle ; again, the profit derived from such securities went to augment the Reserve. The only justification for investment in London instead of in India was that the latter is lacking in short-term loan market. This explanation was not at all convincing.

The investment has augmented the reserve.

The location of the Reserve in London was also supported on the grounds that the United Kingdom was the principal customer of Indian goods and London was the monetary centre of the world. The location of the Reserve in London would therefore help greatly in the discharge of India's foreign obligation.

Sec. 15. The Various recommendations on the Gold Standard Reserve.

The various currency commissions that have been appointed in India to make recommendations on the currency system have not failed to make certain suggestions as to the constitution of the Gold Standard Reserve. We shall have brief summary of such suggestions.

The Chamberlain Commission of 1913-14 recommended that the gold portion of the Reserve should be raised to £10 millions by transfer of gold from the Paper Currency Reserve and that the Government should miss no opportunity to raise the Reserve (in gold) to £15 millions and after that one-half of the total reserve in actual

gold would be sufficient. It was further recommended that the entire reserve should be kept in London and the profit of the rupee coinage should be credited to the reserve in its entirety.

The Babington Smith Committee (1919-20) did not define the limit to which the Gold Standard Reserve should be raised but recommended that the fund should not be invested in long-term securities and that the investment should be made only in securities issued by any Government within the British Empire other than the Government of India and having a fixed date of maturity not exceeding 12 months. This Committee also recomended that a portion of the Reserve should be kept in India.

Babington Smith Committee.

Hilton Young Commission

The Hilton Young Commission of 1926 recommended that the Paper Currency and Gold Standard Reserve should be amalgamated and the proportions and composition should be fixed by statute.

Sec. 16. The Rise in Exchange and the Babington Smith Committee.

The object of such appointment.

In the preceding section we have seen how the abnormal rise in the rate of exchange led to the break-down of the Gold Exchange Standard. Thus when the war was over we found the Indian Exchange in a fluctuating condition. Such an uncertainty in India's currency system was prejudicial to the interest of trade and industry and in consequence, the Secretary of State appointed a committee known as the Babington Smith Committee to devise means for restoring stability to the rupee and for re-establishing automatic working of the Gold Exchange Standard system. The Committee rejected the proposal for reducing the fineness or weight of the silver rupee and similar other proposal and finally decided to fix the exchange value of the rupee at 2s. (gold). The establisation of the exchage rate at such a high level was based on the prevailing value of silver during that time. The Committee also suggested the means that should be taken by the Goverment if the value of silver rises above the party of 2s. (gold). Such stabilisation of the exchange rate would materially help the Government in meeting its Home charges and would not, as the Committee held, prejudicially affect the trade and industries of the country. The export trade would not, according to the opinion of the majority of the members, suffer much because there is a keen demand for Indian raw materials in foreign countries.

It recommended the 2s. gold rate.

No doubt the import trade would be stimulated but the majority of the members opined that this stimulus would be transitory in character and would not seriously hamper the progress of Indian industries. The price of the imported stores and machinery would fall in terms of rupees and this would go a great way in lowering the cost of production. The Government, therefore, should try its utmost to maintain the rate of exchange at 2s. (gold) by selling reverse councils during the time when the Indian Exchange would show a sign of weakness. This 2s. (gold) ratio was recommended by the majority of the members of the Commission but a Note of Dissent was written by Sir Dadiba Dalal. In this note Sir Dadiba Dalal stated in clear terms the serious consequences that would follow from the stabilisation of 2s. (gold) rate and recommended the restoration of the exchange to pre-war level i.e. 1*s*. 4*d*. The 2*s*. (gold) rate would bring about dislocation of trade and industry and turn the balance of trade against India by discouraging her exports. The reserves of the Government now kept in gold and sterling would depreciate in terms of rupee. He was against the sale of council bills in response to demand of trade and suggested that the sterling drafts should be sold by the Government of India at the pre-war rate, i.e., 1*s*. $3\frac{29}{32}d$. He appreciated the defects inherent in the Gold Exchange Standard and recommended the introduction of a gold standard with gold currency. All these recommendations were ignored and the Government accepted the 2*s*. (gold) rate as recommended by the majority. The sovereign was made legal tender at Rs. 10 by the Coinage Amendment Act of 1920. The Treasuries and Currency offices were authorised to accept sovereigns and half-sovereigns at the rate of Rs. 10 and Rs. 5 respectively but as the market price of sovereign was higher than the above rate the sovereigns were never available in currency at the new rate. The sale of council bills and reverse council was authorised at the new rate. The Government by means of a notifications withdrew the ban on the melting of silver and gold coins and at the same time allowed the importation of silver into the country. The Gold Exchange Standard system was thus again re-established ; but the rate of exchange was this time fixed at a higher level because of the recommendations made by the Commission in their report.

Govt. accepted the above recommendation.

Sec. 17. Why the Exchange could not be maintained at 2s. (gold) ?

Though the Government of India accepted the 2*s*. (gold) rate and

attempted to maintain the exchange rate at the high level its efforts in this connection were not crowned with success. The market-price of gold did not fall so much as to permit the stabilisation at 2s. (gold). In the market value of gold per tola was near about Rs. 21 while if the Government sold gold at the rate of exchange fixed by it, it would have to supply per tola of gold at about Rs. 26. Such a transaction meant a clear loss to the Government. The demand for remitting gold to London increased very much because the speculators anticipated that the rate of exchange could not be maintained at the high level and therefore it was proper time for taking advantage of the favourable rate at which the Government agreed to supply gold. The war-time profits earned by the businessmen tempted certain sections of the people to float new business and to import machinery for the purpose. The demands for remittances abroad increased abnormally. The reverse councils were sold by the Government in response to the heavy demand for remittance. This resulted in an enormous loss of the gold resources of the Government and ultimately the Government had to abandon the 2s. (gold) rate. The next attempt of the Government was to maintain the 2s. sterling rate but this attempt also did not prove successful. The reserves kept in London were reduced to a great extent by this unsuccessful attempt on the part of the Government to maintain the exchange rate at this high level. The public opinion in India vehemently protested the adoption of such policy which meant a loss of gold reserve of the country. The sale of reverse councils was also unjustifiable because that step should only be taken during the unfavourable balance of trade. The sale of reverse councils from January 1900 to September of that year amounted to £55 millions (approximately).

Why the Govt. failed to maintain the exchange rate at 2s. (gold).

Sec. 18. How the Indian Exchange Fell and how it was Raised?

We have seen in the preceding section how the Government incurred a heavy loss in attempting to maintain the theoretical gold value of the rupee. The Government therefore had to abandon its attempt in September 1920. But this artificial maintenance of the rate had its worst effect upon the foreign trade of the country. The export trade was discouraged and there was a stimulus to the import trade. Again, during that time the export trade declined greatly for other causes. There was a failure of Indian monsoons which brought about a failure of harvests. At the same time demand for India's commodities from Europe and Japan fell very much. Thus

Balance of trade was against India.

there was an appreciable diminution in the export trade of India and the net result was a balance of trade against India. In 1921-22 the unfavourable balance became as large as Rs. 36 crores (approximately). This led to a fall in exchange. Again, the price of silver began to take a downward course during that time. And on account of these two causes the exchange rate fell below 2*s*. (gold) or 1*s*. 3*d*. (sterling) in 1921. The Government of India tried to check the fall by contracting the circulation of paper currency but this could not improve the currency situation. The rate of exchange could not be maintained and 2*s*. (gold) ratio which was adopted by the Government in accordance with recommendation of the Babington Smith Committee became ineffective. It should be noted in this connection that the Committee committed a great mistake in recommending the 2*s*. (gold) rate. The committee did not take into account one important cause of the rise in Indian Exchange, viz. the greater rise in sterling prices as compared with the rise in rupee prices. For this reason the 2*s*. (gold) rate as recommended by the Committee meant overvaluation of the rupee and could not be maintained during the post-war period when the sterling prices began to fall more rapidly than the Indian prices. Such a falling exchange prejudicially affected the import trade of the country and increased the sterling obligation of the Government of India. The Government also suffered substantial losses in selling the sterling securities the sale-proceeds of which were used in re-deeming the huge amounts of Reserve Councils. One important cause of this heavy fall in the exchange value of the rupee was the redundancy of the currency in circulation. During the war time the currency was inflated to the utmost point by the issue of notes against created securities and by the increased coinage of token money. Such an increase in circulation was necessary during the war time when the trade was brisk, but after the war was over, the trade boom began to pass away very rapidly and as a result of the reduction in the volume of trade the inflation of currency manifested itself in prominent form. This led to a fall in the value of rupee and rise in prices. When the Government came to realise the root cause of the falling exchange it attempted to check such fall and to raise the Indian exchange by suspending the purchase of silver and the coinage of rupees for a period of time. The restriction in the coinage of rupees improved the currency situation and the exchange rate began to rise gradually. It reached the pre-war level (1*s*. 4*d*.) in 1923 but this upward tendency continued and in 1924 the exchange value of the rupee was equivalent to 1*s*. 6*d*. sterling. The rise in Indian exchange did not stop there but continued till March, 1926 when the rate of exchange reigned in the neighbourhood of 1*s*. 6*d*. gold for a considerable period of time.

This rise in the exchange rate which was brought about by the artificial contraction of currency and the favourable balance of the trade since 1922 was conducive to the interest of the Government and hence it was very anxious to have the exchange rate stabilized at 1*s*. 6*d*. ratio. A Royal Commission on Indian Exchange and Currency of which Mr. Hilton Young was the president was appointed in 1925 to examine the currency system as it stood during that time and to make necessary recommendation for reform.

Rise in exchange was due to contraction of currency.

Sec. 19. The Defects of the Gold Exchange Standard.

The Gold Exchange Standard system is not the best monetary system that can be profitably adopted by India because of certain inherent defects. These defects can be discussed in the following manner :—

A managed currency.

The first defect that exhibited itself in the operation of this peculiar system of currency lay in the fact that the system required a good deal of management on the part of the Government ; hence this system of currency was vitiated by all the defects of a managed currency ; but there were authorities who highly spoke of such a system and regarded it as automatic as the currency system of the United Kingdom. The Chamberlain Commission denied that the Government had any power to manipulate the currency for its own ends and add to the active circulation of the currency except in response to the public demand. Mr. Keynes also held the same view and protested against the idea that the Government manipulated the currency and was responsible for any evil accruing from such manipulation. He contended that in case the Secretary of State ceased to sell council bills in response to the demand for trade, sovereigns would be imported into India and presented to the Treasury for redemption and its effects on the volume of circulation would be the same. The argument was fallacious. True it is that the Secretary of State sold council bills in response to demand for trade ; but did that demand represent the whole volume of trade ? Did the whole volume of trade increase necessarily in proportion to the external trade with reference to which the council bills were sold by the Secretary of State ? The answer was in the negative. Now since the Secretary of State sold council bills and expanded currency in response to a part of the trade which was external and not in response to the total volume of trade which might not increase in proportion to the

External trade does not represent the whole volume of trade.

external trade, the system of currency increased sometimes the total purchasing power much more than an automatic system would do.

Less automatic in the opposite direction.

Similarly, the Gold Exchange Standard system had been less automatic in the reverse direction. Under this system rupees were not convertible into gold inside the country, nor were they convertible externally except in the case of fall in exchange when the Government sold reverse councils. But we should care to note in this connection that character of exchange depended on many factors other than the conditions of external trade. There might be depression of trade and redundancy of currency and yet heavy and continuous borrowing on the part of India might reverse the tendency to weak exchange and render the sale of reverse councils unnecessary.

No adjustment of currency.

Again, the management of the Indian Currency system impeded the automatic working of the "natural corrections to favourable exchange." We know how exchanges in gold standard countries having free market for gold are automatically adjusted to the international price-level. If the price-level is higher in one country there will be an excess of import and gold will flow out of the country for the payment of the prices of the surplus import. In this way the volume of currency is adjusted to the international price-level. The case of India was different because of less automatic character of its currency system.

The price-level of India did not correspond to the inter-national price-level. During the period 1920-22 prices fell heavily in America, England and many other countries but in India the fall was not so extensive. The reason of this contrast was easy to seek. Here in India there was no easy and satisfactory method of withdrawing currency from circulation. The system was in a way responsible for internal instablity of prices.

Stimulates hoarding habit.

It is important to notice in this connection, the relation which subsisted between the Gold Exchange Standard and the hoarding of precious metal with which habit the Indians had been imputed often with some degree of exaggeration from the European quarters. India had been designated as "sink of precious metals." We admit that there is a degree of truth in this remark. But the Indians were not to blame for this habit of hoarding. It was the outcome of the currency policy. The standard of value in India was a token coin which was also unlimited legal tender. People who in some way or other

managed to procure gold (metal or coins) did not invest the same because they had not the option of being repaid in gold. Again, the standard coin should have stability in purchasing power. In India the rupee which was token coin was not endowed with stable purchasing power. A rise in price was inevitable if a rise in the exchange value of the rupee was to be prevented during the favourable balance of trade.

Again, the adoption of the Gold Exchange Standard had been responsible for the accumulation of reserves in a foreign country for the purpose of being used once in a decade when the unfavourable balance of accounts had to be liquidated. Again, the locking-up of the reserve in separate vaults for separate objects had the effect of withdrawing this much-needed funds from capital market of the country. The control of currency and credit had not been placed under a single authority. In India the Government controlled the currency system but the credit system was controlled by the Imperial Bank. This division of responsibility necessitated duplication of the reserves. The system was far from being simple and was not readily intelligible to the uninstructed public.

Accumulation of reserves in foreign countries.

The system threw upon the Goverment the responsibility of managing the remittance business. Often the management was attacked on the ground of inefficiency and the Secretary of State had been charged with interested motives for withdrawing unnecessary fund from India for the benefit of London borrowers.

It is interesting to quote in this connection several remarks that have been made on the nature and character of the Gold Exchange Standard by eminent authors. "The Gold Exchange Standard" says Nicholson, "is available only for dependent countries, in short, it is not monetary system but a connecting link between an isolated market and the broader market to which it looks for support."

Nicholson's remark.

Sir Robert Giffen made the following remarks on Mr. Lindsay's scheme on which the Gold-Exchange Standard system is based. "No doubt these schemes in fair weather times and for a certain time might work but I do not think that they can be depended upon permanently," The Indian currency has proved to be only "fair-weather currency."

Sir Robert Giffen's view.

The system was far from being simple and the basis of the stability was not easily intelligible to the public. The system was also

expensive because it contained a valuable token coin which could be conveniently replaced by paper notes.

Sec. 20. Arguments in favour of the Gold Exchange Standard.

Several arguments have been advanced in favour of the Gold Exchange Standard and it will be interesting to note these arguments.

(1) Stability of Exchange is of pre-eminent importance for foreign trade and constant fluctuation of exchange rate will prejudicially affect the volume of such trade. The Government interest, the interest of the fixed salaried people who remit money from India and the interest of the capitalists, who send capital to India for investment will suffer greatly if the rate of exchange does not remain stable.

The future sale of bills as remittances is only a second rate protection afforded to the merchants but other classes cannot be protected permanently by this method.

(2) So long as the world conditions are unstable we cannot have both stability of exchanges and stability of prices at the same time.

(3) Even under the Gold Exchange Standard India can obtain the necessary gold that she requires.

(4) The Gold Exchange Standard is really a gold standard supported by the Gold Reserve and for gold standard the circulation of gold currency is not necessary.

(5) A judicious operation of the Gold Exchange Standard would free it from all the defects experienced in the past as a result of mismanagement.

(6) The present state of economic education of the people will not permit the adoption of gold standard saturated with gold currency.

(7) There is economy in the cost of home currency. Precious metal like gold is not used for currency purposes and the profit of rupee coinage is kept in a gold reserve which again has been invested mainly in securities.

(8) Stability of exchange with gold countries within government limits can be secured easily ; as a device for exchange stability it is better than bimetallism or any other system.

(9) The Gold Exchange Standard may be easily and wisely managed by the Central Bank.

Mr. Keynes highly speaks of the merit of the system. In his book on "Indian Finance and Currency" his appreciation of the system runs thus :—"In the Gold Exchange Standard and in the mechanism by which this is supported, India is in the forefront of monetary progress ;" but the theoretical merit of the system can be understood only by the intelligent students of Economics and not by the general public.

Mr. Keyne's view.

Sec. 21. Why the Government has not introduced Gold standard with the Gold currency in India ?

In India agitations have been made since 1864 for the introduction of gold currency, The Indians appreciate fully the advantages that can be derived from such a system of currency but the Government has been always regular in rejecting their legitimate demand. The two earlier committees on Indian currency viz., the Herschell Committee and Fowler Committee were in favour of the introduction and circulation of gold coins in India. The Government, however, agreed to introduce gold coins for a period of time by authorizing the currency officers and the post offices to issue sovereigns for making payment. The amount of sovereign thus thrown into circulation was too insignificant for a vast country like India and as these sovereigns did not return to the treasury in full the Government at once came to the conclusion that India could not use gold coins with profit. Hence the policy of introducing gold coins was stopped.

Earlier committees were in favour of the introduction of gold currency.

Next agitation was made in the year 1912 when Sir Vithaldas Thakersay moved a resolution recommending the mint to be thrown open to the free coinage of gold. In moving that resolution he summarized very nicely the arguments that could be advanced in favour of gold currency. Another vigorous agitation was made during that time by Mr. Webb. The Chamberlain Commission which fully discussed the advisability of the introduction of gold currency in India finally recommended against such currency but still the Commission added that there could possibly be no objection against the introduction of gold currency in India if such a system was genuinely demanded by the Indians and the Government was in a position to meet the expenses incidental thereto.

Movement for gold currency in 1912.

The Babington Smith Committee of 1919 recommended that the issue of gold coins in moderate quantities should be one of the methods of meeting the increased demands for currency. The Committee,

however, did not support the increased use of gold which would supplement the use of silver and reduce the pressure upon it.

The Hilton Young Commission rejected the proposal for a gold standard with gold currency for the following reasons :—

(1) It will lead to fall in world prices ; the demand for gold will increase very much and the European countries will suffer greatly as gold is required in those countries for the purposes of reconstruction. India will not remain unaffected by such a fall in gold prices.

(2) It will not check the hoarding habit of the people and gold will remain in private hoards unless the infusion of banking facilities has led to the growth of a habit of making investment.

(3) The use of gold currency will reduce the demand for silver and lead to fall in its value.

(4) The savings of the poor which are usually made in terms of silver ornament will depreciate in value to the extent of 50 per cent. No effort of the Government will succeed in maintaining the present value of the silver artificially.

(5) China will be surely hard hit by such a currency policy of India and will hasten towards the adoption of gold standard and gold currency and the result will be that the demand for gold will increase rapidly to the prejudice of the gold-using countries.

(6) War had taught the gold-using countries to dispense with the use of gold in currency. The currency system of England which was introduced in 1925 did not favour circulation of gold coins ; similarly, the United States practically ceased to use gold coins in currency. India should not adopt such a system of currency when other nations have keenly felt the difficulties of such a system and are trying to abandon it.

To the above arguments we can add several others which are often urged against the introduction of gold standard with gold currency in India.

(i) Gold currency is an expensive and wasteful medium. It involves the locking up of a large portion of a country's capital for exchange purposes to the detriment of the industries of the country. It has been, therefore, termed as a relic of barbarism although the countries claiming the highest degree of civilization are found to maintain it.

(ii) Gold in circulation is no good support for exchange in crisisa. So a gold-exchange reserve would still have to be maintained to support exchange.

(iii) It will lead to a drain of the gold stock held in London. Again, considerable amount of loan will have to be incurred if India will return immediately to the gold standard. This loan can possibly be obtained from the U. S. A.

(iv) The poverty of the Indian people and the small scale of payment will render gold coin unsuitable for everyday purposes.

(v) India will have to sell the amount of silver at a disadvantage, on the other hand, the price of gold will increase on account of the extensive demand for it.

(vi) Gold standard with gold currency will not help India in reaching the ideal system. The most progressive system will make an economy in the use of precious metals and throw into circulation the cheaper money materials.

(vii) A managed currency system is not necessarily a defective system. The present system which is under the supreme control of currency authorities has been as automatic as possible because the Government is seen to increase the supply of currency in response to demands for money.

(viii) The establishment of a mint for the coinage of gold in India is unnecessary because gold comes into India, freely from Australia, Egypt and other countries.

Sec. 22. Arguments in Favour of the gold standard with gold currency.

(1) Gold currency has the advantage of introducing a more convenient and portable medium of exchange than the silver rupee. The Chamberlain Commission criticized the argument and said that India must continue for many years to use rupees for making small payments which form the bulk of internal transactions ; but that can hardly be a reason for denying the right of the people to have their token coins converted into gold when they wished to do so. No advocate of gold standard with gold currency will ever object to the popularity of the rupee as the cheap medium of exchange if it were only limited legal tender and freely convertible into gold.

(2) The ideal currency system which consists in the use of paper-notes issued against gold reserve cannot be attained unless people have been given the privilege of using gold coins in circulation for a period of time. Sir James Begbie, the only dissenting member of the Royal Commission was intelligent enough to contend that the system of making the currency note encashable not in gold but in rupee was pernicious inasmuch as it had the effect of keeping gold

out of useful employment. People who prized gold so highly as to store and hoard it were not likely to invest it so long as they had to take the risk of being rapaid in token coins which were legal tender.

(3) There is some prestige attached to gold currency because almost all the civilized countries have adopted this system. It is the less progressive nations that still continue with silver currency.

(4) If gold coins remain in circulation in large quantities they will render great assistance in supporting the exchange.

Sir James Begbie however contended that though gold in reserve was better than gold in circulation for the support of exchange gold in circulation was a better protection for exchange than token coins. Moreover, reserves of gold could be accumulated from gold circulation through a system of note issued against gold.

(5) The system of managed currency will continue to the detriment of the trade and industry of the country unless and until mints are thrown open to the free coinage of gold. If the Gold-Exchange Standard system is allowed to continue, serious consequences will follow because of want of adjustment between the demand for and supply of currency.

(6) India produces a large quantity of gold every year and in consequence will not have to depend upon forein gold-using countries for the supply of gold necessary for her currency. The other countries that are profited by India's gold, will no doubt be harmed by such an act on the part of India but a country cannot be expected to sacrifice her own interest for promoting the interest of another country.

(7) The use of gold coins does not carry with it the idea of abandoning the use of silver coins. Silver rupees will be required in large quantity and the Government will be in a position to derive profit from the coinage of rupees.

(8) The opening of the mints to the free coinage of gold will have the effect of reducing the amount of gold bullion that remains buried in private hoards. People will be given an opportunity of turning their stock of gold bullion into coins so that they may be invested in profitable business. The introduction of gold currency will thus help the growth of a habit of investment which is a necessary condition of industrial success.

(9) The Indians are not satisfied with the present system of currency which makes the token rupee an unlimited legal tender.

India has no standard coin with reference to which the debts may be repaid and which may help the people in determining exactly the value of commodities.

(10) India imports a large quantity of gold every year because of her favourable balance of trade. The amount of gold so imported will help the peeple greatly in meeting the demands for gold for currency purposes. Again, the demand wiil not be very great because there are few persons in India who can afford to use gold coins for the purposes of exchange.

Sec. 23. The currency situation before the appointment of Hilton Young Commission.

How the Government raised the exchange value of the rupee to 1*s*. 6*d*.

During the war period the Indian Exchange could not be maintained by the Government on account of certain causes which we have already discussed. Just after the war the Babington Smith Committee was appointed to make recommendation as to the stabilisation of the Exchange rate. The Committee recommended that the exchange value of the rupee should be fixed at 2*s*. (gold). Owing to the circumstances to which we have already referred the Government failed in its attempt to maintain the exchange rate at 2*s*. (gold). World prices were taking a downward course but the Government of India could not contract the currency sufficiently so as to keep pace with the fall of prices. The Indian exchange, therefore, reached the low level of 1*s*. 3*d*. sterling or 1*s*. (gold) in 1921. The Government which had interest in raising the exchange value went on contracting currency and managed to raise the exchange to 1*s*. 4d. (gold) by October 1924. In this manner the Indian exchange began to acquire new strength gradually but it was not allowed to exceed 1*s*. 6*d*. by the free purchases of sterling made by the Government of India. The exchange rate thus prevailed in the neighbourhood of 1*s*. 9*d*. The Hilton Young Commission was then appointed to examine the existing system and to make recommendation regarding the reforms that should be introduced.

The Commission dealt with the following important subjects :—

(1) The introduction of a gold standard for India.

(2) The establishment of a Central Bank.

(3) The fixity of the ratio of the rupee to gold.

(4) The arrangement that should be made during the transitional period before the Central Bank comes into existence.

The Government of India submitted a scheme for the introduction of gold standard with gold currency. This scheme spoke of transferring the management of the paper currency and the remittance business of the Government to the Imperial Bank of Indis and suggested that gold coins and Bank notes should be unlimited legal tender and the rupees should be limited legal tender up to Rs. 50 only. It cast upon the Government an obligation to give gold coins in exchange for gold bullion and upon the Bank a statutory responsibility of redeeming the bank notes into gold coins. The Commission rejected the scheme on the ground that adoption of such a scheme would require at least £103 millions and such a heavy expenditure would seriously tax the resources of a poor country like India. The Commission also referred to the other hackneyed arguments that could be advanced against the introduction of gold standard with gold currency in India.

Scheme submitted by the Govt.

Sec. 24. Gold Bullion Standard.

The Hilton Young Committee suggested a novel standard which may be described as a Gold Bullion Standard. The characteristics of such a system may be summarized in the following lines :—

The local currency should consist of silver rupee and notes and gold should not circulate as money. The standard of value should not, therefore, be represented by a gold coin but the Government would secure the stability of the currency in terms of gold by making the local currency convertible into gold for all purposes. In this respect the system would differ from Gold Exchange Standard according to which the Government took the responsibility of supplying the people with gold whenever it was required for making foreign payments ; but it should not be concluded that the Government would give gold in exchange for rupees whenever the people would demand the same in any quantity. The Commission suggested a minimum quantity of 400 fine ounces and the Government would be under statutory obligation to buy and sell gold bars at rates determined with reference to a fixed gold parity of the rupee and the cost of importation of gold without loss from London provided gold demanded or supplied was not less than 400 fine ounces.

What it means.

The object of recommending the introduction of such a peculiar system was principally to economize the use of gold in India. The Committee was against the circulation of gold coins and recommended the withdrawl of legal tender quality from the sovereigns and half-

sovereigns. The gold-bullion standard would, as the Committee opined, provide for automatic expansion and contraction of currency in response to demand for trade. The currency would expand when notes or rupees were issued by the currency authority in exchange for gold bars and would contract when it gave gold bars for notes and rupees. In this way the stability of the gold value of the currency would be maintained and export and import of gold will connect the Indian price level with the world price level. This is seldom possible under the Gold Exchange standard system. Again, the system of currency would, as the committee thought, have all the characteristics of a sound monetary system. The system would ensure simplicity and certainty and would not cause a sudden exhaustion of the gold reserve because rupee would retain its legal tender quality and the currency authority would not compete with the bullion market in fixing the rate for the sale of gold. The system would provide visible link between the currency and gold in the shape of bullion.

Sec. 24(a) Other Reforms regarding the Currency system.

The issue of gold certificate.

The Committee suggested several other reforms which would lead to a successful working of the above scheme. One such reform consisted in the issue of gold-saving certificates which would be redeemable in three or five years in legal tender money or in gold at the option of the holder. The effect of the issue of such certificates would, as the Committee thought, impress upon the masses that there was really a gold standard and at the same time induce them to invest their stock of gold.

The issue of new notes.

The Committee appreciated the difficulty that followed from the legal provision for the conversion of notes into rupees and in consequence, recommended that the new notes should no longer be legally convertible into silver rupees; but these notes should be convertible into gold (in quantities not less than 400 ounces), into silver rupees or into notes of smaller denominations at the option of the Government. In this manner there could possibly be a dethronement of the rupee and the currency system would be less subject to fluctuation in the value of silver. The Committee, however, did not advise the withdrawal of the promise to redeem the existing notes into rupees because such withdral would mean a breach of promise on the part of Government and destroy public confidence.

Issue of one-rupee notes.

The Committee also suggested the substitution of the silver rupee by one rupee note; this later kind of notes should have full legal tender and the notes of higher denomination would be redeemable in terms of one-rupee notes.

Unification of the two reserves.

Another recommendation made by the Commission was the unification of the two reserves, the Gold Standerd and the Paper Currency Reserves. The two reserves could be unified without any disadvantage because the introduction of the new notes not redeemable in silver rupees would do away with the necessity of keeping a separate reserve for ensuring convertibility of such notes. The proportional reserve system should be introduced and at least 40 per cent of the reserve should be kept in gold and gold securities. The currency authority should strive to work up to a reserve of 50 to 60 per cent. Attempt should be made to raise the gold holding to 20 per cent in the near future and to 25 per cent within 10 years. The silver holding should be reduced substantially during the period of 40 years. The balance of the reserve should be kept in self-liquidating trade bills and the Government of India securities.

Sec. 25. The Stabilization of the Exchange rate.

Stabilization of the exchange rate at 1*s*. 6*d*.

Another recommendation that the majority of the members of the Hilton Young Commission made was in connection with the stabilization of the exchange rate at 1*s*. 6*d*. The market rate of exchange was during the time when the Committee was appointed, in the neighbourhood of 1*s*. 6*d*. The high rate was the outcome of contraction in the currency effected by the currency authorities. The Government had an interest in so raising the exchange rate because it would thereby reduce its sterling obligation in conneetion with the payment of Home charges. The majority of the members of the Commission recommended the fixation of the exchange rate at 1*s*. 6*d*. but Sir Purushottomdas Thakurdas sent a minute of dissent recommending the fixation of the exchange rate at 1*s*. 4*d*. We shall now summarise the arguments advanced in favour of 1*s*. 6*d*.

(i) Arguments for 1*s*. 6*d*.

(1) The price level in India has been adjusted to the exchange rate of 1*s*. 6*d*. This is shown by the marked fall in price of commodities since 1925. The world prices have taken a downward course and in response to that tendency the Indian prices have also fallen.

Again, the exchange rate has remained steady for considerable period so as to give enough opportunity to the prices to adjust themselves to the prevailing rate of exchange. The rise in the exchange value of the rupee is indicated by the fact that people have not taken advantage of the offer made by the Government to sell sterling at 1*s*. $5\frac{3}{4}$*d*.

(2) The price level and the exchange rate have been fairly steady for a considerable period of time and from this it can be presumed that the wages have been adjusted to the prevailing prices and exchange. The burden of proving that the wages have not yet adjusted themselves to the prevailing rate is thrown upon those who are against the stabilization of the exchange rate at 1*s*. 6*d*. Again, the stabilization of the exchange rate at lower level may bring only temporary profit to the producers at the expense of the consumers.

(3) The stabilization of the exchange at 1*s*. 6*d*. would not seriously prejudice the interests of persons who entered into contract for paying revenue when the rate of exchange was fixed at 1*s*. 4*d*. because there has been a considerable rise in the prices of agricultural products. With regard to other long-term contracts the Committee believed that the contracts entered into prior to 1918 and still in existence are fewer in number when compared with contracts concluded during the subsequent eight and half years when the exchange rate was more or less unstable.

(4) The reversion to 1*s*. 4*d*. will not bring any permanent benefit to any section of the community. It will be beneficial to the interest of the debtors, exporters and employers of labour for a period of time which will be necessary for the conditions to adjust themselves to the stabilized rate. In the meantime it will prejudicially affect the interest of certain other sections.

(5) Another consequence that would follow from the reversion to 1*s*. 4*d*. ratio would be the inflation in currency causing a rise in prices. Such a rise would no doubt be beneficial to the interest of the producers but it would have the effect of reducing the real wages of the labourers. The majority of the members pointed out that such reversion to 1*s*. 4*d*. would raise the general prices by $12\frac{1}{2}$ per cent.

(6) The sterling obligation of the Government would increase inasmuch as larger amount of rupees would be required in making payment of the Home charges in sterling. This increase in sterling obligation would necessitate extra taxation. Again, it would affect the credit of the Government and make it impossible for the Government to secure credit at a favourable rate of interest.

(7) The Government officers would demand higher salaries because the prices of commodities would be considerably raised by the reversion to 1*s*. 4*d*. ratio.

(ii) Arguments in favour of the 1*s*. 4*d*. ratio.

(1) The majority of the members were of opinion that the prices had been adjusted to 1*s*. 6*d*. ratio. Sir Purushottamdas Thakurdas contended that there had not been complete adjustment. The fall in price had not been sufficiently great so as to justify the stabilization of the exchange rate at 1*s*. 6*d*., on the other hand the relative price levels in India and other gold-using countries were at that time the same as they had been before the outbreak of war. All these circumstances would recommend the restoration of the exchange rate to pre-war level.

(2) The wages had not been adjusted to the 1*s*. 6*d*. The argument that the exchange rate and the fall in prices had been fairly steady for a considerable period of time to warrant the presumption that the wages had adjusted themselves to the above ratio was not quite sound. The wages could possibly be reduced in response to the rise in exchange so far as the literate labourers were concerned but the illiterate class of labourers would strongly protest any reduction of their wages. Whenever any question of reduction would be raised, there would surely be strike organisation to protest against such proposal. These strike organisations prevented the adjustment of wages to the prevailing exchange rate. The stabilization of the exchange rate at 1*s*. 6*d*. would, therefore, seriously affect the interest of industrialists and might destroy certain industries.

(3) The stabilization of the exchange rate at 1*s*. 6*d*. would stimulate the import trade during a period of adjustment of conditions to that rate because it would have the effect of giving an indirect bounty of 12 per cent to the foreign manufacturers. India would be flooded over with cheap foreign commodities and the indigenous industries would suffer greatly on account of foreign competition.

(4) The sterling obligation of the Government in connection with payment of Home charges would no doubt be increased by the restoration of the exchange rate of 1*s*. 4*d*. but this loss would be compensated by a rise in the revenue derived from custom duties.

(5) The people who made commercial and industrial contracts when the exchange value of the rupee was fixed at 1*s*. 4*d*. would be injured by the stabilization of the exchange at 1*s*. 6*d*.

(6) The agriculturists of India who were over head and ears in debt would be seriously affected by the stabilization of the exchange rate at 1*s*. 6*d*. The rise in the exchange rate would reduce the price of agricultural products and in consequence, the agriculturists would get less money by selling their products, on the other hand the creditors would not favour them with any concession because of the fall in prices. The stabilization of the exchange rate at 1*s*. 6*d*. would have the effect of increasing the agricultural indebtedness by $12\frac{1}{2}$ per cent.

(7) It would be difficult to maintain the exchange rate at 1*s*. 6*d*. because the value of silver would possibly fall within a short time.

(8) The attempt of the Government to maintain the exchange rate artificially would result in a loss and the Gold Standard Reserve would be considerably reduced.

(9) The policy of discrimination which had been recently adopted by the Government in accordance with the recommendation of the Fiscal Commission would be ineffective inasmuch as the artificial raising of the exchange rate would reduce the price of products to the detriment of the industrialists.

(10) The stabilization of the exchange value of the rupee at 1*s*. 6*d*. would increase the rigour of taxation because people would have to part with a large amount of commodities in payment of a fixed amount of tax (in money).

(11) The stabilization of the exchange rate at 1*s*. 4*d*. would mean misery to the poorly paid members of the literate classes alone while the 1*s*. 6*d*., rate would prejudicially affect the interest of about 80 per cent of the total population.

(12) The pre-war ratio of 1*s*. 4*d*. fluctuated along with ratios of other countries on account of the war. Other countries have striven to restore their pre-war ratios. India should, therefore, fall back upon the pre-war rate of 1*s*. 4*d*.

Sec. 25(a). Critical examination of the ratio question.

No direct proof of adjustment.

The majority of the commissioners compared the Index Numbers and arrived at the conclusion that the substantial adjustment of prices to 1*s*. 6*d*. ratio had taken place. But although they admitted at the very beginning that Index Numbers could not be an infallible guide yet they forgot this fact when they strongly recommended the stabilization of the exchange rate. The majority reported that the 1*s*. 6*d*. ratio had existed for more than a year but the period was long

enough to effect substantial adjustment between the ratio and the prices.

The majority of the members could not prove with reference to statistical evidence the adjustment of wages to the exchange rate. They were quite helpless and had to fall back upon a negative piece of evidence, viz., that the 1*s*. 6*d*. ratio had prevented an increase in the salaries of the Government servants which would otherwise have been inevitable.

The inference drawn by the majority with regard to the fewness of contracts made on the basis of 1*s*. 4*d*. could not claim accuracy because people who expected the reversion of the exchange to 1*s*. 4*d*. would naturally base their contracts upon it.

Another point which the majority of the members emphasized in recommending the 1*s*. 6*d*. ratio was that the adoption of 1*s*. 4*d*. ratio would lead to a general rise of prices to the extent of 12½ per cent. This argument was fallacious inasmuch as it assumed that the price had already been adjusted to 1*s*. 6*d*. ratio and ignored the counteraction of the then tendency of the world prices to fall.

The Minority report which embodied the recommendation concerning the 1*s*. 4*d*. ratio did not represent the true state of things. First, Sir Purushottam Das who submitted the minute of dissent did not correctly estimate the burden of rural indebtedness which the 1*s*. 6*d*. ratio would bring about because he did not take into account the benefits which the agriculturists would derive from cheaper implements and lower cost of production. Again, he ignored altogether the fact that a good deal of such debts is incurred in kind.

Again, Sir Purushottam Das laid to much emphasis upon the policy of deflation adopted by the Government in their attempt to raise the exchange rate. If we admit that deflation has been great, we cannot at the same time assert that there has not been a substantial fall in the level of prices.

Sec. 26. The Government Measures.

The currency Bill and its provisions.

The main recommendations of the Hilton Young Commission were embodied in three distinct bills. We shall presently consider the provisions of one such bill, viz., the Currency Bill. The Bill was introduced with a view to stabilizing the gold value of the rupee at 1*s*. 6*d*. (Re. 1 = 8·47512 grains of gold). It cast upon the Government an obligation to purchase gold at the rate of Rs. 21-3-10 p. per tola of fine gold contained in bars and amounting to 400 ounces approxi-

mately. An obligation was at the same time imposed for selling gold at the above rate or at an equivalent rate (after allowing for the cost of the import of gold from London) prevailing in gold-standard countries provided gold was demanded in quantity not less than four hundred fine ounces. The Bill also contained another important provision which was concerned with the removal of the legal tender quality from the sovereign and the half-sovereign. The Bill was vehemently protested in the Legislative Assembly but Sir Basil Blacket supported it and advanced all the arguments that could be advanced in favour of the 1*s*. 6*d*. ratio. Again, the majority of the elected members of the Legislative Assembly objected to the demonetization of the sovereign because such a measure would stand in the way of India's ever adopting the gold standard with gold currency. Notwithstanding all these protests, the Government of India managed to have that Bill passed in 1927. By the same Act sovereigns and half-sovereigns were deprived of their legal tender characteristics but an obligation was thrown upon the Government to receive these coins at all currency offices and treasuries at their bullion value reckoned at Rs. 23-3-10 p. per tola of fine gold, that is, Rs. 13-5-4 pies per sovereign of full weight. A subsequent notification informed the public that the rate for the sale of gold or sterling was 1s. $5\frac{49}{64}d$.

The Currency Act of 1927 introduced what could be more aptly described as a Gold Bullion-cum-sterling Exchange Standard because it gave the Government the option of selling sterling instead of gold so long as the sterling remained at par with gold, that is to say, till 20th September, 1931 the system practically worked as a Gold Exchange Standard. This novel system differed from the earlier system in that it established a statutory gold parity for the rupee and threw upon the government a statutory obligation to buy gold or sterling at fixed rates.

Sec. 26(a). How the Government has maintained the 1*s*. 6*d*. Rate ?

We have seen in the preceding section that the Currency Act of 1917 was passed with a view to giving effect to the recommendation concerning the stabilization of the exchange rate at 1*s*. 6*d*. The Government of India took upon itself the responsibility of maintaining the exchange rate. The Goverment felt difficulty in maintaining the exchange rate. India was like other countries, passing through a period of trade depression due to the fall in prices. The speculative

Difficulties experienced by the Govt.

boom in the United States compelled the Federal Reserve Bank to restrict credit by raising the bank rate. The other countries had to raise their rate in order to protect their stock of gold. This resulted in a world-wide depression of trade and industry and led to fall in prices including the price of securities. India had been particularly hard hit by this world-wide depression. The price of cotton had fallen by 15 per cent and the price of wheat by about 12 per cent while the price of jute and rice had fallen considerably. The price of Indian securities had fallen with the result that the foreigners were not willing to invest their capital in them.

The depression of trade and commerce which followed the passing of the Act of 1927 made the problem of exchange complicated. The Government had to take recourse to special measures in maintaining the 1*s.* 6*d.* ratio. The Government adopted the policy of deflation and effected contraction in currency by the transfer of sterling securities in the Paper Currency Reserve to the Secretary of State for the sterling expenditure against cancellation of currency in India. Again, the Government sold Treasury Bills and thereby withdrew currency from circulation. The bank rate of the Imperial Bank of India was raised to 7 per cent notwithstanding the fact that the Bank had sufficient cash balance at its disposal. The Government found it difficult to purchase sterling in open market and had to meet its sterling obligation by the transfer of sterling from the Paper Currency Reserve and by incurring sterling loans and by selling Treasury Bills. The demand for sterling increased considerably because the speculators who believed that the exchange ratio would surely come down to 16*d.* increased their purchase of sterling with a view to selling it when the ratio would fall. The Government went on selling sterling in order to maintain the rate at the lower gold point. On the 27th June, 1931 the Prime Minister announced in the House of Commons that the British Government would render their assistance to the Government of India in the matter of maintenance of the exchange ratio. The object of this announcement was to restore confidence and check the flight of capital. The announcement produced little or no effect. Next came the crisis of September which compelled the Biritish Government to abandon the gold standard temporarily. As soon as this news reached India the Governor-General promulgated Ordinance No. VI of 1931 which relieved the Government from their obligation to sell gold or sterling. This Ordinance was cancelled by the Ordinance No. VII of 1931 which announced the decision of the Government to link the rupee with sterling at 1*s.*

Special measures adopted.

Announcement of Prime Minister.

6*d*. and to sell sterling to recognised bankers with a view to financing foreign banks. Within three weeks the rapid fall in the cross-rate between sterling and dollar had raised the rupee and sterling price of gold. The price of gold rose from Rs. 21-3-10p. in August 1931 to Rs. 31-10-6p. per tola in December 1932. This high price was attractive and induces many people to take advantage of it. The result was a heavy export of gold from India. This accounted for a favourable balance of trade. The rupee ratio began to rise and came near the upper point (1*s*. $6\frac{3}{16}$*d*.). The Government was in a position to purchase huge amount of sterling at the upper gold point. The increased supply of sterling enable the Government to withdraw the sterling sale regulation or ordinance, referred to above and helped the Government in repaying sterling bonds to the extent of £15 million sterling. The purchase of sterling which was stimulated by India's favourable balance of trade resulted in an expansion of currency and removed the stringency in the money market.

Effect of the fall in the cross rate.

Sec. 26(b). The Export of Gold : its Causes and effects.

The abandonment of gold standard by Great Britain in September, 1931 led to an appreciation in the price of gold in terms of sterling. The decision of Great Britain as to the abandonment of gold standard was followed by ordinances issued by the Governor-General of India, which established the link of rupee with sterling at 1*s*. 6*d*. For this reason the rupee price of gold began to rise along with the rise in the sterling price of gold. But the sterling price of gold rose higher than the rupee price of gold and this difference in the price of gold which made India a cheaper market for the purchase of gold accounted for heavy export of gold from India. In 1931-32 the net exports of gold were valued at Rs. 58 crores and by the end of December, 1932 the highest figure on record was about Rs. 110 crores. In 1934-35 the net export of gold amounted to $52\frac{1}{2}$ crores. During ten months of 1939-40 (i.e. from 1st April to 31st Jan.) the net export amounted to Rs. 31·35 crores. Another cause of this export of gold was the flight of capital from India which was accentuated by the economic and political chaos of the time. Again, the over-valuation of the rupee led to an unfavourable balance of accounts and necessitated the heavy export of gold from India.

Flight of gold.

The stock of gold available for sale and export increased greatly, partly because of the sudden rise in the price of gold which served as an inducement for the sale of gold and partly because of the

economic distress which compelled people to part with their hoarded wealth of gold.

Let us now turn to discuss the effects of this export of gold from India. Gold which came out of the hoards increased the supply of the world's monetary gold in much the same way as the discovery of a new gold field would have done. The influence of this large supply of gold upon the currency systems of foreign country cannot be ignored. Again, the export of gold exercised certain salutary influences upon India's trade and finance. Although the balance of trade in merchandise sank considerably on account of the world-wide depression, the balance of trade was usually augmented because of this heavy export of gold. This favourable balance turned the course of rupee-sterling exchange and raised it to the upper point. The export of gold also strengthened the sterling exchange against gold currencies and enabled Great Britain to discharge her gold obligation to U. S. A. It assisted considerably the finances of the Government of India. It enabled the Government to meet conveniently its own requirements (Home Charges), to repay sterling loans and to strengthen its reserves in London. When a portion of the reserve was available for investment in sterling securities, it would go to remove the stringency of London money-market.

Effects of the supply of gold on currency.

There are critics who regard this heavy export of gold from India as a drain on the accumulated savings of generations. "It is," as Prof. Brij Narain tells us, "a sign of India's growing poverty and of an undesirable trend of our foreign trade......It means living on capital which is a dangerous process for a nation as for an individual." It is extremely desirable that an embargo should be placed on gold. The Government however do not find any cause of apprehension in view of the fact that the export of gold is but a fraction of the enormous stock of gold which India possesses and that gold will return to India as soon as the price of gold will fall. Again, the imposition of an export duty on gold will surely throw the burden of such duty on the poor agriculturists who are the sellers of distress gold.

Views of Prof. Brij Narain.

Sec. 26(c). Criticism of the Gold Bullion Standard.

The Hilton Young Commission recommended the introduction of a novel form of currency system known as the Gold Bullion Standard and opined that this system would win public confidence and promote the banking and investment habit of the Indians. It would, as the Commission

Defect of the system.

thought, make gold bullion the standard of values and would ensure the convertibility of currency notes into gold bullion for all purposes. People would not be allowed to use gold for currency purposes and for this reason the Commission recommended the withdrawal of legal tender characteristics from sovereigns and half-sovereigns. The system of currency, if introduced will be devoid of simplicity and intelligibility which are indispensable requisites of a sound currency system. Again, a system of currency which an advanced country like England may profitably adopt or has been forced by circumstances to adopt, may not safely be introduced in India where the people are demanding gold currency. People will have no faith in the stability of such a currency system and in consequence the system will fail to promote the banking and investment habit. The provision for convertibility into gold when the latter is demanded in quantities of not less than 400 ounces will be unreal because there are few people who can demand so much gold at a time. The rate for selling gold will be higher than that for buying gold with the result that London will continue to be the cheaper market for gold. This will go to justify the policy of keeping India's reserve in London and its temporary use for the benefit of London money-market. Again, the demonetization of sovereigns and half-sovereigns at a time when the people of India urgently demand the introduction of gold currency is a retrograde step and will surely destroy public confidence.

Sec. 26(d). How does the Government make remittance to England.

A novel system.

We know that the Government of India has to remit considerable amount of sterling every year in payment of what is known as Home Charges. Formerly, these remittances were made through a system of sale of council bills in London. The Secretary of State for India used to sell these council bills in London in response to demand for the same obviously with the object of maintaining the rate of exchange and avoiding the export of specie from London. Out of the proceeds of the sale the Secretary of State discharged his obligation in connection with Home Charges. As early as 1923-24 another novel system was introduced in India. The Government of India began to purchase sterling in India from banks and other financial houses. The sale of council bills, however coutinued till 1925 when the system of purchasing sterling in India turned out to be the sole method of making remittances to England. In 1927 the Government introduced the system of purchase of sterling by competitive public tender in accordance with the recommendation of the Hilton Young Commission. In

1932-33 the Government of India purchased £35,733,000 sterling at the average rate of 1*s.* 6·156*d.* The system helps the Government in the matter of making remittances and of preventing appreciation in the exchange value of the rupee above the point fixed by the Government. This system is better than the former system of selling council bills in this respect that the purchase of sterling can be regulated with reference to the conditions of market and stringency in the money-market can be removed as speedily as possible. The Indian exchange ceases to be controlled by the Financial committee of the Indian council. The exchange banks are at an advantage inasmuch as they can get ready cash by selling their bills to the Government. The new system is defective in this respect that it does not enable the Government to get the best possible price for the rupee because the foreign demand for rupee cannot be as easily known in India as it can be known in London which is the world's financial centre. Again, the purchase of sterling in India has been criticised on the ground that it checks the flow of gold into India.

Formerly, the Government of India purchased sterling through the agency of the Imperial Bank of India. With the establishment of Reserve Bank the responsibility of purchasing sterling has been thrown upon it. The Reserve Bank Act authorises the Bank to buy from any person who makes a demand in that behalf at its office in Bombay, Calcutta, Delhi, Madras or Rangoon, sterling for immediate delivery in London at a rate not higher than one shilling and six pence and three-sixteenth of a penny for a rupee :

Provided that no person shall be entitled to demand to sell an amount of sterling less than ten thousand pounds :

Provided further that no person shall be entitled to receive payment unless the Bank is satisfied that payment of the sterling in London has been made.

The Bank has also been authorised to sell to any person who makes a demand in that behalf at its office in Bombay, Calcutta, Delhi, Madras or Rangoon and pay the purchase price in legal tender currency sterling for immediate delivery in London, at a rate not below one shilling and five pence and forty-nine-sixty-fourths of a penny for a rupee :

Provided that no person shall be entitled to demand to buy an amount of sterling less than ten thousand pounds.

The Reserve Bank of India has thus been entrusted with the responsibility of maintaining the stability of the exchange. Tenders are invited for the purchase of sterling in Calcutta, Bombay, Madras and

Karachi on every Wednesday. On intermediate dates intermediates are offered at the offices of the Reserve Bank of India at a rate which is higher by $\frac{1}{32}d.$ per rupee above the highest rate at which previous day tenders were received. After the commencement of war the Government of India delegated to the Bank authority to administer the regulations controlling dealings in coins, bullions, securities and foreign exchange. All dealings in foreign exchanges were to be transacted through authorised dealers and the Exchange Banks and certain Indian Joint Stock Banks were given licences for the purpose. During October, 1939 the Reserve Bank of India raised its tap rate to 1*s.* 6*d.* as a result of which the market rate for ready Telegraphic Transfer improved to 1*s.* $5\frac{31}{32}d.$ at which level it has remained practically unchanged.

With the recent improvement in India's visible balance of trade it has become possible for the Reserve Bank to purchase huge amount of sterling at an average rate of 1*s.* $5\frac{63}{64}d.$ during 1939-40. The total amount of sterling purchased by the Reserve Bank from September, 1939 to March 31, 1942 aggreegated £195, 123,000 (Rs. 260 crores).

Sec. 26(e). The Linking of the rupee with sterling : how far justified.

Arguments in favour of rupee sterling exchange.

We have seen that with the abandonment of Gold Standard by England the Government of India took away the link between rupee and gold as established by the Currency Act of 1927 and decided to link the rupee with sterling at 1*s.* 6*d.* The following arguments have been advanced by the Government in support of this new policy of Exchange.

(i) The linking of the rupee with sterling was a matter of necessity because it was not safe to stick to the policy of exchanging gold for rupee.

(ii) India had to pay annually a large amount of sterling as Home Charges and difficulties would arise in connection with the framing of budget in the absence of any fixed relation between rupee and sterling.

(iii) A major portion of India's foreign trade was on sterling basis and the linking of the rupee with a sterling would facilitate at least that portion of her trade

(iv) In the rupee-sterling exchange the rupee would depreciate in terms of gold and this depreciation would act as stimulus to the Indian export trade in the gold standard countries.

(v) India was a debtor country and the linking of the rupee with sterling would facilitate the repayment of her international debts.

(vi) The other alternative which related to the stabilization of the rupee at the lower gold value of 1*s*., 6*d*. would surely cause a depletion of the gold reserves of the country and could not be profitably adopted. Again, the recommendation of the Hilton Young Commission regarding the linking of rupee with gold could not be given effect to in the abnormal condition created by sudden rise in the price of gold.

(vii) The rupee-sterling exchange would make for comparative stability in the exchange value of the rupee and this comparative stability was preferred to complete instability which would surely result if rupee was allowed to drift and no attempt was made to regulate its exchange value.

The following arguments were advanced against the rupee-sterling exchange :—

(i) The sterling had been suffering from wide-fluctuation in value with reference to gold and by the linking of the rupee with sterling India would be made to share in the fluctuations in the value of sterling.

(ii) The imports from Gold standard countries would be seriously affected by the depreciation of rupee in terms of gold occasioned by the linking of the rupee with the depreciated sterling. On the other hand the imports from England would be greatly encouraged. The linking of the rupee to the sterling would thus assume the form of Imperial preference granted to England. This argument is fallacious because depreciation in the value of sterling would bring England greater preference if India retained the gold standard.

(iii) The establishment of 1*s* 6*d*. rate means considerable overvaluation of rupee in terms of sterling and puts India to disadvantage in comparison with other countries which have devaluated their currencies in sterling.

The linking of the rupee with the sterling has not produced satisfactory results. Although there was temporary revival of business activity and prices showed an upward tendency till February 1932 prices continued to fall till March, 1932 when the Index number stood at 82. The position of the balance of trade in the years that followed the linking of the rupee with sterling was disappointing.

There was a continuous decline in exports at a time when the imports had been increasing rapidly. India which has to pay Home Charges to the extent of over Rs. 40 crores was left with a favourable balance of trade of less than $3\frac{1}{2}$ crores in 1932-33 necessitating a heavy export of gold.

The export of gold from India was stimulated by reason of the fact that the rupee price of gold did not rise as such as the sterling price of gold with the result that India became a cheaper market to buy gold and London became a dearer market to which gold was sent for better price.

Sec. 26 (f). Recent Ratio-controversy : the Necessity of Devaluation.

We have already seen how with the abandoment of Gold Standard by England in 1931 our rupee came to be linked with sterling at the ratio of Re. 1 = 1*s.* 6*d*. As the sterling depreciated in relation to gold the Indian rupee had to follow the same course. This led to a rise in the rupee price of gold and the consequent dishoarding of gold from private hoards. Again, the rupee was over-valued in terms of gold relatively to sterling and this resulted in an unfavourable balance of accounts and the consequent outflow of gold from India. This uneconomic migration of gold roused popular discontent and urged the need of an adjustment of exchange ratio.

Devaluation in other countries.

In the mean time the European countries took to a policy of deflation and raised their bank rates. The result was a heavy fall in the price-level. The fall was greater in countries having Paper Standard than in U.S.A. and France which had Gold Currency. The latter two countries were particularly at a disadvantage in view of the competition of countries forming the 'paper bloc' and had to devalue their currencies. To ensure exchange stability a monetary agreement was signed between England, France and U. S. A. All these incidents make a strong case for the devaluation of the rupee. The ruling authorities, however, do not appreciate the necessity of such devaluation and contend that rupee has already been devalued in pursuance of the depreciation of sterling and that the heavy export of gold from India is but a natural phenomenon uninfluenced by the exchange ratio.

It was urged by Sir James Grigg in support of the existing ratio of 1*s*. 6*d*. that the rupee was not at all over valued. Had there been any such over-valuation there must have been deficit budgets, high money rates, depletion of currency reserves and falling trade balances.

The absence of these symptoms of over-valuation would dispense with the necessity of such devaluation. Again, any devaluation of the rupee would provoke retaliation in foreign countries and entail loss of foreign market for Indian goods. It would also add to the complexity of budgetory estimates and seriously impair the financial position of the provinces under the Otto Niemeyer (Financial) Award. Again, as Dr. J. C. Sinha argued, the demand for Indian products could not be stimulated by currency depreciation.

Sec. 27. The System of Paper Currency.

Every civilized country uses paper money as circulating medium to a considerable extent ; this is so because it is by the use of paper money that a country economises the use of precious metal for currency purposes and thus can increase the stock of capital that will be available for investment. It is interesting to trace the development of the system of Paper Currency in India.

Prior to the passing of the Act XIX of 1861 the three Presidency Banks of Bengal, Bombay and Madras enjoyed the privilege of issuing notes to a considerable extent ; but the notes issued by these banks practically circulated within the Presidency towns and the sphere of circulation could not be widened because the banks had fewer branches. It was Mr. Lushington who suggested for the first time the desirability of the issue of notes by the Government. His memorandum was forwarded to the Secretary of State in 1859 ; but Her Majesty's Government disapproved of the scheme. Next suggestion for the introduction of paper-notes issued by the Government came from the fertile brain of Rt. Hon. James Wilson. He recommended the issue of notes in accordance with the banking principle by keeping a metallic reserve amounting to one-third of the total amount of notes issued. The Government of India, however, did not think it safe to rely upon so small an amount of reserve but was advised by the then Secretary of State to adopt the currency principle of note-issue in imitation of the practice followed by the Bank of England. It is not out of place to explain what is meant by the currency principle. This principle suggests the issue of notes backed by an almost equivalent amount of reserve. The issue of notes against Government securities should be strictly limited and every note issued in excess of the fixed amount of fiduciary issue (i. e., notes issued against securities) should have a metallic reserve against it. This principle lays too much emphasis upon the convertibility of notes.

Wilson's suggestions.

The Govt. adopted the currency principle.

The Act XIX of 1861 withdrew the privilege of issuing notes from the three Presidency Banks and created a Currency Department which would be entitled to issue notes. These notes were payable to the bearer on demand. The lowest denomination was to be Rs. 10. In 1891 a note of a smaller denomination, viz., the five-rupee note was introduced. The number of circles of issue was to be three or more and the reserve to be kept against notes should consist of mainly bullion and coin. The Government securities would not amount to more than 4 crores of rupees.

As the currency principle regulated the issue of notes the fiduciary portion of the reserve was kept at a low figure. The entire reserve was kept in India until 1905 when the London branch of the reserve was created. The Acts IX of 1902 and III of 1905 permitted the Government to keep the reserve in rupees, gold coin, bullion or securities either in India or London with this limitation that all coined rupees were to be kept in India and not in London.

The notes were at first redeemable at the respective circles of issue; attempts were made by the Government to universalize the notes of smaller denomination. The Act VI of 1903 made the five-rupee note a universal note in Burma as well as in other parts of British India. In 1910 the ten and fifty-rupee notes were made universal. The hundred-rupee note was also declared universal in 1911. This universalization of notes had the effect of increasing the popularity of the notes issued.

The currency authority has issued notes of various denominations. We will find in circulation notes of the following denominations—Rs. 5, Rs. 10, Rs. 50, Rs. 100, Rs. 500, Rs. 1000, Rs. 10,000. There are at present seven circles of issue, viz., Calcutta, Bombay, Madras, Rangoon, Cawnpore, Lahore and Karachi. The notes of Rs. 500, Rs. 1000, Rs. 10,000 are redeemable only at the circle that issues them. The notes of the latter descriptions issued by one circle cannot be presented for redemption at another circle of issue.

The passing of the Reserve Bank of India Act, 1934 has invested the Reserve Bank of India with the sole power of issuing notes. The Bank has an Issue Department absolutely separated from the Banking Department and is entitled to issue notes against assets not less than two-fifths of which shall consist of gold coin, gold bullion or sterling securities and the rest shall be held in rupee coin, Government of India rupee securities and such bills of exchange and promissory notes as are eligible for purchase by the Bank. Every bank note shall be legal tender. On and from the date on which the Bank notes are issued the Governor-General shall cease to issue notes.

Sec. 28. The Paper Currency Reserve : its composition and objects.

How the fiduciary portion was raised from time to time.

As the issue of notes in India was based on the currency principle the amount of securities held in the reserve was strictly limited ; but the Government had to increase this fiduciary portion from time to time. In 1898 the Gold Note Act authorised the holding of a part of the reserve in gold coin. In 1899 this security or fiduciary portion was raised from Rs. 4 crores to Rs. 8 crores. In 1905 an Act was passed authorising the holding of sterling securities in England to the extent of Rs. 2 crores. In 1911 the fiduciary portion stood at Rs. 14 crores out of which four crores were held in sterling securities. The Chamberlain Commission which appreciated the inelasticity due to the necessity of keeping sufficient amount of metallic reserve recommended that the fiduciary portion of note-issue should be fixed at a maximum of the amount of notes held by the Government in the reserve treasuries plus one-third of the net circulation. The Commission also recommended that the Government should make temporary investment or loan with a view to removing the stringency of the money market.

The Government could not act according to the rocommendation of the Chamberlain Commission because the increased demand for funds during the war time necessitated an extension of the fiduciary portion of the reserve. The pre-war limit was Rs. 14 crores but in 1917 it was raised to Rs. 86 crores. In 1919 it was again raised and in September of that year it stood at Rs. 120 crores, of which Rs. 20 crores were invested in permanent securities and the rest consisted of temporary securities.

The Act of 1920 and the Act of 1932.

On the basis of the recommendation of the Babington Smith Committee the Paper Currency Act, 1920 provided that the metallic reserve should be at least 50 per cent of the total reserve with the exception of securities of the value of Rs. 20 crores held in India. The remainder shall be held in England and should be short-dated securities maturing within 12 months. The Secretary of State was advised not to keep more than five million pounds in gold bullion in London. The said Act also authorised the controller of currency to issue notes to the extent of 5 crores against discounted bills of exchange maturing within 90 days of the issue. The maximum limit of 5 crores was raised by the Act of 1923 to Rs. 12 crores.

Hilton Young Commission.

The Hilton Young Commission which recommended the transfer of note-issue to the Reserve Bank of India advocated a proportional Reserve System. It also recommended the amalgamation of the Paper Currency Reserve with the Gold Standard Reserve and the maintenance of the 40 per cent of the Reserve in gold and gold securities. The rest shall be held in rupee-coin, Government of India rupee securities and such bills of exchange and promissory notes payable in British India as are eligible for purchase by the Reserve Bank. These provisions have been incorporated in the Reserve Bank of India Act, 1934. The composition of the Paper Currency Reserve as it stood at the end of March, 1935, may be described as follows :—

		(in lakhs of rupees)
Gross circulation of notes	...	1,86,10
Silver coin in India	...	7725
Gold bullion in India	...	4155
Silver bullion in India	...	1312
Sterling securities in England	...	1828
Rupee securities in India	...	3590

The above reserve is kept for ensuring the convertibility of the rupee. The notes are to be converted in India but a portion of the reserve is kept in England and invested in rupee securities. The Government explains away this anomaly by saying that London is the cheapest market for silver and silver is required for fresh coinage of rupees. Again, the reserve is also used for the purpose of maintaining the exchange ratio specially during the unfavourable balance of trade when unlimited sale of sterling draft exhausts the sterling resources of the Gold Standard Reserve. The Reserve also helps the speedy transfer of the profits of rupee coinage from India to London. The Secretary of State sometimes appropriated funds out of the Reserve when in the past the sale proceeds of the Council bills were not sufficient to meet the sterling obligation (Home Charges) in London.

Sec. 29. Elasticity of Currency Notes.

The adoption of currency principle made the system inelastic.

We have already seen that the Government of India adopted the currency principle of note-issue. The principle has no doubt one important advantage which consists in keeping a sufficient amount of metallic reserve against the notes that are issued. The principal defect of the principle lies in the fact that it makes the Currency system inelastic. This is because notes cannot

be issued unless the metallic portion of the reserve can be augmented. The supply of currency cannot be adjusted in response to demands for the same. The fiduciary pertion of the reserve is strictly limited and notes issued in excess of the fixed amount of fiduciary portion of the reserve must have an equivalent amount of metallic reserve against them. During times of monetary stringency the defect inherent in such a system manifests itself in a prominent form. The Government adopted this principle because it had been adopted by the Bank of England but it failed to realise at that time that the circumstances of the two countries differed greatly and the principle that could be profitably adopted by England could not be adopted with success by India. The adoption of the currency principle has created stringency in the money-market of England but this stringency has been removed to a great extent by the increased use of cheques by her people. In India, however people do not use cheques in large quantities and the result is that almost the entire demand for currency is to be satisfied by the coinage of rupee and the issue of currency notes; restriction has been imposed upon the coinage of rupees by closing the mints to the free coinage of silver and if a similar restriction is placed upon the issue of notes there will be no other ways of adjusting the supply to the demand for currency.

The Government keenly appreciated the stringency of the money-market and had to increase the fiduciary portion of the reserve from time to time. Chamberlain Commission made certain recommendations with a view to increasing the elasticity of note issue. During the war the fiduciary portion was increased very much and the rigidity and lack of elasticity of the Indian Paper Currency system gave place to one too elastic for the safety of the system.

After the war was over the question of reforming Paper Currency system was referred to the Babington Smith Committe. The Committee pointed out the evil that followed from the adoption of the Currency principle and recommended that the minimum for the metallic portion of the paper currency reserve should be 40 per cent of the gross circulation. The Committee also recommended the proportion in which securities of various descriptions should be kept in the reserve. This was followed by the Paper Currency Act of 1920 which showed that the Government of India had accepted the recommendation of the Committee in a modified form. The Act introduced for the first time the proportional reserve system and laid down that the metallic reserve to be kept against notes issued should be 50 per cent instead of 40 per cent of gross circulation. This metallic reserve was practically reduced to $47\frac{1}{2}$ per cent because

power was given to the currency authorities to issue notes to the extent of 5 crores of rupees against commercial bills of exchange. Such notes could not be issued except in times of real emergency because of the provision that the controller of currency with whom such commercial bills would be deposited by the Imperial Bank would charge the Bank an interest which should not exceed 8 per cent. Besides the bills of exchange mentioned above, the Act also defined the character and amount of other securities that might be kept in the fiduciary portion of the reserves. It limited the securities of the Government of India to a maximum of Rs. 20 crores of which not more than Rs. 12 crores should be created securities. The balance should consist of the securities of the United Kingdom the date of maturity of which must come within one year. The Act of 1920 succeeded in removing the stringency of the money-market by making provision for the issue of notes against commercial bills of exchange; but as the rate of interest charged was as high as 8 per cent considerable difficulty was felt by the borrowers. Hence the above Act was amended so as to permit the grant of loans to the extent of Rs. 4 crores at the rate of 6 per cent and thereafter with every rise in the rate of interest by one per cent an additional amount of Rs. 4 crores would be available until a maximum of Rs. 12 crores was reached. Such provisions for meeting the stringency of the money-market were contained in the Paper Currency Act of 1923. Again, the Act of 1923 reduced the permissible limit of investment to Rs. 85 crores and fixed the maximum amount of the gold holdings of the Secretary of State at Rs. 5 crores. The next important step that the Government took to remove the inelasticity of the currency system was the passing of the Paper Currency (Amendment) Act in 1925. This Act raised the maximum amount of fiduciary reserve from Rs. 85 crores to Rs. 100 crores and provided that the value of created securities should not exceed Rs. 50 crores. All these measures have removed the inelasticity of the currency system to a great extent. The principle upon which the currency system of India is at present based cannot be properly described as currency principle. The currency authorities started with the currency principle but on account of frequent reforms that had to be introduced the principle which at present governs the system of note-issue has been similar to the banking principle of note-issue. In spite of the above reforms introduced in the currency system the elasticity has not been complete and it cannot be complete unless and until the function of issuing notes is made over to a Central Bank. On the basis of the recom-

Act of 1920.

Act of 1923.

Act of 1925.

mendations of the Hilton Young Commission the Reserve Bank of India Act was passed in 1934 and the Reserve Bank has been established with powers to issue notes. The Bank has been issuing notes of various description since January, 1938. These notes are legal tender and are guaranteed by the Governor-General in Council. The Act provides for seperation of the Issue Department from the Banking Department and authorises the Bank to issue notes against assets consisting of gold coin, gold bullion, sterling securities, rupee coin and rupee securities. Of the total amount of the assets, not less than two-fifths shall consist of gold coin, gold bullion or sterling securities provided the amount of gold shall not exceed Rs. 40 crores in value. The remaining three-fifths should be held in rupee coin, Government of India securities and such bills of exchange and promissory notes payable in British India as are eligible for purchase by the bank provided the amount of rupee securities shall not at any time exceed one-fourth of the total amount of the assets or fifty crores of rupees, whichever is greater or with the previous sanction of the Governor-General such amount plus a sum of ten crores of rupees. From the above provisions it is clear that the currency system will become more elastic as soon it comes under the control of the Reserve Bank of India.

Act of 1934.

An ordinance of the Governor-General has made the currency system more elastic by authorising with the permission of the Governor-General the keeping of rupee securities upto the limit of 60 per cent of the assets and the fall of gold and sterling securities below 40 per cent on the payment of a progressive tax upto a maximum of 6 per cent.

Sec. 30. The Location of the Paper Currency Reserve.

The paper notes issued by the currency authorities were redeemable in terms of silver rupees. Hence adequate reserve in terms of rupees had to be kept in India. The whole of the reserve was previously kept in India but since 1898 a part of it came to be held in London for facilitating the purchase of silver for coinage and for enabling the Secretary of State to sell Council bills in excess of his requirements with a view to financing the foreign trade of India.

Why a part was located in London.

The location of the reserve in London was attacked on the following grounds :—

(1) The Paper Currency Reserve was meant for ensuring the convertibility of notes in India and in consequence, it was just and proper that the entire fund should be kept in India. If the entire

fund was kept in India, a portion of it might be utilised in removing the stringency of the Indian money-market.

(2) The location of the Paper Currency Reserve in London was not at all necessary to maintain the exchange rate, because the Gold Standard Reserve is sufficient to satisfy India's balance of trade. The main object of keeping this reserve in London was to assist the London money-market with India's money.

(3) The location of Paper Currency Reserve in London was not necessary for facilitating the purchase of silver because the funds necessary for that purpose might be taken from the Gold Standard Reserve; again, the argument that London was the cheapest market for silver could not carry weight in view of the fact that London was not the producer of silver and India had every chance of organising an efficient market for silver if the Government of India cared to make purchases in India and allowed the free importation of silver into India.

The Government of India, however put forward the following arguments in favour of location of the reserve in London :—

(1) The location of this reserve in London would facilitate the purchase of silver which might be required for the coinage of rupees. If no such reserve was kept in London the result would be that the Government of India would have to send funds from India in order that the Secretary of State might be in a position to purchase silver with an amount of promptness which was necessary to ensure the convertibility of notes.

(2) The location of such a reserve in London would help the Secretary of State in the payment of Home Charges during the unfavourable balance of trade. Before the introduction of the system of purchase of sterling in open market the Secretary of State realised the amount of Home charges payable by the Government of India by selling Council bills but when the balance of trade was against India the Secretary of State could not realise the amount by the sale of Council bills. When such a contingency took place the location of a Paper Currency Reserve enabled the Secretary of State to withdraw an amount of sterling which was required for meeting his own sterling obligation on a transfer of an equivalent amount in terms of rupees to the Indian portion of the Reserve.

(3) The location of the Paper Currency Reserve enabled the Secretary of State to sell Council bills in response to trade demands. The sale-proceeds of such bills were kept in the London branch of the Paper Currency Reserve and an equivalent amount of silver rupees

was withdrawn from the Paper Currency Reserve which was located in India. In this way the supply of currency was adjusted to the demand of trade.

(4) The gold kept in the Paper Currency Reserve acted as a second line of defence for the exchange, the first line being the Gold Standard Reserve; in other words when the unfavourable balance of trade was so large that the entire Gold Standard Reserve was exhausted, the sterling drafts were redeemed by withdrawing certain amount of sterling from the Paper Currency Reserve located in London.

(5) The location of such Reserve also avoided the double cost of transporting specie. If there was no such fund in London the Secretary of State could not sell Council bills in response to trade demands with the result that gold would necessarily be imported into India in liquidation of India's favourable balance of trade. The amount of gold so imported could have been presented to the treasury for conversion. Again, when the fresh coinage of rupee would necessitate the purchase of silver, this gold stock will be transmitted into London. In this way India would have to pay the double cost of transporting gold. The absence of short loan market in India was another justification for the location of the reserve in London.

(6) Lastly, location of a portion of the Paper Currency Reserve in London assisted the Secretary of State in the matter of transfer of the profits of rupee coinage from India to London without causing any transfer of specie from India to London. He could conveniently withdraw an amount of sterling from the Paper Currency Reserve, and deposit the same to the London portion of the Gold standard Reserve, so that an equivalent adjustment might be made in India by the payment of the profits of the coinage to the Paper Currency Reserve.

Sec. 31. The Present system of Currency.

Rupee is a token coin but is unlimited legal tender.

The Government of India has complete control over the currency system of India. The mints have been closed to the free coinage of silver. This has changed the character of the rupee. Formerly the rupee was the standard coin, that is to say, its face value represented the bullion value but the closure of the mint has the effect of making it a token coin. India at present has no standard money. The face value of the rupee is higher than its

bullion value and in consequence, the Government which has the absolute privilege of coining rupees derives a huge profit from such coinage ; but though it has been reduced to the position of a token coin yet it is unlimited legal tender. People of India are bound to accept it in any amount in payment of what is due to them from others.

The rupee is not convertible into gold. It is, therefore, an inconvertible specie. It is sometimes termed as an inconvertible note printed upon silver. The only difference that exists between the paper note and the rupee is that the latter is a more valuable note than the former. The Hilton Young Commission suggested that the rupee which is valuable token money should be replaced by the one rupee note.

The value of silver rupee has heen raised from time to time by means of artificial contraction of currency. After the war, exchange rate once reached 1*s*. 3*d*. but as the Government gained by a rise in exchange, it managed to raise the exchange value of the rupee by artificial contraction of currency and in the long run the rupee was stabilised 1*s*. 6*d*. (gold) in accordance with the recommendation of the Hilton Young Commission.

Currency Act of 1927.

This was done by the Currency Act of 1927 which introduced substantial changes in the system of currency. The Gold Exchange Standard had already disappeared and Gold Bullion Standard came for the first time to fill up the gap. The Act threw upon the Government an obligation to buy and sell at prescribed rates gold bars amounting to 400 ounces. It took away the legal tender characteristic from sovereigns and half-sovereigns. The fixed relation of the rupee with gold continued till the abandonment of gold standard by Great Britain in September, 1931. The Governor-General issued an ordinance and fixed the value of the rupee at 1*s*. 6*d*. sterling. The Government of India has been trying to maintain this relation of rupee with sterling with great difficulty.

The Government used to control the system of note-issue in India. The system was very inelastic. This inelasticity was due to the adoption of currency principle of note-issue. The Act of 1920 as ammended by the Acts of 1923 and 1925 removed the defect to a considerable extent. The passing of the Reserve Bank of India Act, 1934 has made the system of currency more automatic by placing the regulation of credit and currency under the control of the Reserve Bank of India.

Sec. 31 (a). How the Rupee-Sterling ratio is regulated ?

Control of the Reserve Bank of India.

With the abandonment of gold standard by Great Britain the Indian rupee has been linked with sterling at 1*s*. 6*d*. by an ordinance issued by the Governor-General. According to this ordinance sterling was to be sold only to the recognised banks at 1*s*. $5\frac{49}{64}$*d*. per rupee for financing normal trade requirements and not for financing imports of bullions or speculative exchange dealings. The object of this restriction was to relieve the Government of any undue strain which unrestricted sale of sterling would surely lead to and to prevent the flight of capital from India. This flight of capital could not be checked because an abnormal rise in the value of gold encouraged a heavy exodus of gold from India. The Gold and Sterling Sales Regulation Ordinance was repealed on 31st January, 1932. In spite of the repeal of the ordinance the Indian rupee was maintained at 1*s*. 6*d*. sterling and the Currency Act of 1927 remained practically ineffective. The Government of India maintained the Currency ratio with great difficulty and had taken recourse to the policy of Currency contraction to the issue of Treasury Bills, the raising of the Bank rate of the Imperial Bank of India. Formerly the rate of exchange was regulated jointly by the Government of India and the Secretary of State for India by selling sterling drafts and Council Bills at prescribed rates. It was gradually realised that the rate of exchange could be controlled more efficiently from India than from London and for that reason the system of purchase of sterling in open market by public tender was introduced. With the inauguration of the Reserve Bank of India the control over the rupee-sterling exchange has been made over to the Reserve Bank of India which is now under a statutory obligation to maintain the existing ratio (1*s*. 6*d*. sterling) between fixed upper and lower points by selling sterling for immediate delivery in London at a rate not below 1*s*. $5\frac{49}{64}$*d*. (i.e., 1*s*. 6*d*. minus the cost of shipping gold to London), and by purchasing sterling at a rate not higher than 1*s*. $6\frac{3}{16}$*d*. (i.e., 1*s*. 6*d*. plus the cost of importing sterling from London to India), in quantity not less than ten thousand pounds. With the commencement of the present war the Reserve Bank of India raised its tap rate to 1*s*. 6*d*. as a result of which the market rate for ready T. T. improved to 1*s*. $5\frac{31}{32}$*d*. at which level it has remained practically unchanged.

31(b). American Stabilisation plan.

In these days of international trade stability in the foreign exchange counts much for the peaceful maintenance of tradal connection with countries having diffierent currencies. The economic

advancement and rise in the standard of living cannot be ensured if the supply of cheap foreign goods become irregular by reason of the instability of foreign exchange. This is the reason why America insists on the fullest co-operation among nations for the proposed establishment of an International Stabilisation Fund which would at least amount to Rs. 1625 crores contributed on the basis of quotas fixed for each of the United Nations and the countries associated with them. The object of this fund will be (1) to stabilise the foreign exchange rates of currencies of member countries, to avoid discriminatory foreign exchange practices and to foster the smooth flow of foreign trade and productive capital. If this plan is adopted India will be relieved of the exchange difficulties which now hamper her foreign trade.

Sec. 32. Active Note Circulation and Absorption of Rupee and Currency notes.

Active circulation of notes is to be distinguished from gross circulation which means the value of all notes that have been issued and have not as yet been paid off. Active circulation on the other hand means the amount of notes issued less than those held in its Banking Department of the Reserve Bank. In recent times there has been a phenominal rise in active ciculation of notes due to increase in prices and business activity. In 1939-40 the total note circulation amounted to Rs. 238·55 crores, the highest figure on record. The year that followed witnessed a heavy rush for encashment of notes as the combined result of loss confidence due to war and country-wide tendency to hoard metallic coin. To overcome this difficulty in the matter of encashment of notes the Central Government had to put one rupee notes into circulation at the end of July, 1940.

Total note circulation.

The total absorption of Rupee coin and Currency notes during 1939-40 amounted to Rs. 59·53 crores made up of an absorption of Rs. 10·08 crores of rupee coins and Rs. 49·45 crores of currency notes, respectively.

Sec. 33. Effects of the War on Indian Currency and Exchange.

Since the declaration of the last great war in September, 1939 the Indian Exchange began to depreciate in relation to the dollar, yen and leading continental currencies owing to the depreciation of the pound which roughly maintained its relation with the rupee. The pegging of the sterling-dollar exchange led to re-establishment of steady relation of the rupee with the dollar at Rs. 332 per 100 dollars. The Reserve Bank was authorised by the Defence of India

Ordinace to regulate the foreign exchange and to control the dealings in coin, bullion and securities.

All dealings in foreign exchanges were to be transacted through authorised dealers and licenses were granted for the purpose. The purchase and sale of non-empire currencies were restricted to genuine purposes of trade. The object of this control was to check speculation in exchange and to prevent export of capital from India. A scheme for the control of foreign exchange proceeds of exports to the gold standard countries like U. S. A. was introduced on the lines followed by the British Government. In this way India was made to supply commodities at the controlled rupee-dollar rates to the great inconvenience of the Indian exporters. Government of India has also introduced a system of licensing imports with a view to conserving foreign exchange by checking import trade. Imports and exports of gold have been restricted by means of licenses granted by the Reserve Bank of India. Export of gold to countries other than Great Britain and U. S. A. is not permitted. In case of export to U. S. A. the dollar proceeds of the export is to be sold to the Federal Reserve Bank on behalf of the Bank of England. This restriction on export is meant for conserving the gold resources of India for the benefit of Great Britain.

Conrtol of foreign exchange.

With the entry of Japan in the eastern theatre of war and intensification of hostilities in Africa, India was transformed into a vital supply base for the strategy of the united nations in the East and Middle East. As a result of this there was huge accumulation of sterling and expansion of internal currency. The disbursement in connection with war effort went to accentuate the situation and evils of inflation manifested themselves in clear forms. The wholesale prices witnessed a steady rise and the cost of living followed the trend in whole-sale prices. An attempt was no doubt made to withdraw the surplus currency by the promulgation of Exess Profit Ordinance and the capital Issues Control Order and the issue of prize bonds. But in spite of this measure the evils of inflation could not be totally eleminated.

The huge accumulation of sterling and the release of paper currency against sterling deposits led to considerable alteration in the relative position of gold, silver coins and rupee securities in the paper currency reserve. Under the Reserve Bank Act of 1934 in rupee securities in the Reserve were restricted to ¼ or Rs. 50 crores whichever was higher with an increase of Rs 10 crores during emergency. The huge expansion of currency made it impossible to main-

tain the proportion. Hence an ordinance was passed in February, 1941 making provison for the maintenance of Rupee securities to the extent of the $\frac{3}{5}$ of the Reserve. The wartime currency was thus made to depend principally upon sterling which was not convertible into gold.

The Reseve Bank of India felt great difficulty in the matter of encashment of notes into rupee coins during May and June, 1940 which witnessed heavy withdrawal of money from the Banks. The Government of India had therefore to issue notification penalizing the acquisition of rupee coin in excess of requirement. The issue of one-rupee notes which do not promise to pay in rupee coin and the unlimited legal tender attached to such notes enabled the Reserve Bank to control the situation ably. Silver contents of the rupee and of the smaller silver coins were reduced by appropriate legislations.

Sec. 34. Causes of Inflation during the Present War : its effect upon Price.

The problem of inflation during the present war has become an important topic of discussion and deserves careful study. It is interesting to note the various causes which have brought about the inflation in the Indian currency. Since the entry of Japan and U.S.A. in the eastern theatres of war India became the vital base of war. The Government of India have been since then purchasing huge war materials to aid the military activities of the allies. Large purchases of materials have been made by the Gsvernment of the United Kingdom and U. S. A. The Government of India have also spent huge amount of money towards construction of roads, aerodromes, camps and fortification. All these activities have led to abnormal expansion of currency in India. The note circulation stood at Rs. 763 crores on October, 1943 as compared with Rs. 170 crores in August, 1939. The surplus currency could not be absorbed by additional supply of goods because the scope for increase in agriculture was limited and the Government put restriction on the productive efforts of private enterprisers. The only way of using the surplus currency was to indulge in speculative purchase of articles of consumption with a view to selling them at higher prices in future. This speculative endeavour was in a way responsible for the soaring prices of foodstuffs and aggravated the inflationary movement of price sill further.

Increased circulation of currency.

Inflation in India was principally due to deficit in budget. The Government of India attempted to raise money by taxation and

borrowing but these methods failed to balance the budget. It had therefore to resort to the last method of issuing notes against sterling lying in London. The Government could procure funds by selling the British Commercial investments in India but that would mean the extinction of the vested interest of Great Britain in India.

The inflationary policy of the Government had its worst effect upon the prices. This is clear if we compare the Index Number of wholesale prices, and of the cost of living. According to official the cost of living recorded a rise of 250 per cent but it will be erroneous to attribute the entire rise in prices to inflation. There were also other factors which included (i) the difficulties in the matter inter-provincial distribution of commodities (ii) want of transport facilities, (iii) absence of foreign supply, (iv) restriction on internal production, (v) increase in the demand for consumers goods and (vi) Profiteering activities.

Sec. 35. Remedies Against Inflation.

The evils of inflation have manifested themselves in naked forms. It is high time to take measures for checking the inflationary tendencies. The following anti-inflationary measures have been suggested :—

(1) The best way of removing the evils of inflation is to increase the supply of goods which can at once absorb the surplus currency. The scope for the increase of agricultural goods is limited in this country. There is immense prospect for the expansion of industrial goods but the desired expansion cannot be effected unless machines and appliances are allowed to flow into India.

(2) Wages must correspond to the price level and in no case should they be raised above the level of prices.

(3) Higher incomes should be taxed at a higher rate and the present system of Excess profits tax should continue.

(4) Attempts should be made to withdraw the surpuls currency by encouraging investment in National Savings Certificates, Defence Bonds, Prize Bonds and in the Postal Savings Banks.

(5) Speculative boom should be discouraged with a view to preventing the growth of mushroom companies which are not expected to add to productive resources of the country.

(6) Consumption should be restricted with reference to reduced supply of goods. This would at once necessitate a scheme of rationing and price control.

(7) All forward dealings in consumption goods should be prohibited and advances against commodities should be stopped.

(8) Accumulation of sterling and their conversion into actual currency should be restricted.

(9) United Kingdom may be allowed to raise rupee loans in India with a view to withdrawing surplus currency.

(10) Price control measures should be associated with ready supply of consumers' goods and operations in the black market should be severely punished.

(11) War bonuses may be paid half in cash and half in Defence Savings Bonds.

(12) Deposits bearing an interest of 2% per annum should be made in advance for payment of income tax and excess profits tax on the lines of British Treasury Deposit receipt. The Government of India have already given effect to many of these measures by promulgating necessary ordinances.

In spite of the Governmental effort to reduce the rigour of inflation the prices in India have soared higher in comparison with the prices in U. S. A., Germany and the United Kingdom. These latter countries have secured comparative stability in prices by a system of price-control and rationing while the same measures adopted by the Government failed to secure the same result. This is because the machinery of administration is less efficient in India and cases of corruption vitiate the whole administrative atmosphere.

Sec. 36. Postwar Monetary Reconstruction.

The last Great War was responsible for considerable changes in the system of Indian exchange and currency. In the domain of exchange the exigencies of the war had necessitated rigid control over the remittance of foreign exchange. The Exchange Control Department of the Reserve Bank experienced a severe strain in settling and maintaining the exchange with countries having hard currencies. The system of control may hold good as a war time measure but should not be allowed to continue in peace time. The rupee has lost its purchasing power on account of the undue inflation resorted to by the currency authorities. The currencies of other countries have not witnessed the same degree of inflation. Hence in peace time new ratios between the rupee and other currencies have to be determined with reference to their respective purchasing powers. Again, as result of the pegging of exchange rupee has come to enjoy an external value which has no bearing with its internal value and this

difference between the external and internal value of the rupee must be removed at any cost.

The war has taught the evils that comes out of a managed currency and exchange. It is highly desirable that India should adopt a system of currency and exchange which admits of automatic adjustment in response to the volume of trade. India has got to consider carefully how far the International Monetary plan submitted by the Bretton Woods Conference will suit her.

Another point which should deserve careful consideration in the hands of currency authorities is the extent of deflation which must be resorted in order to remove the distress of the people and to put the price level and cost should have on their peace time position.

Sec. 37. International Monetary plan.

During the war time there were severe restrictions on the free movement of goods. The trade with the enemy countries was strictly prohibited while the normal trade with other countries was practically suspended on account of want of shipping accommodation and exchange difficulties. The trade with the allied countries was restricted to a few articles which were necessary for aiding the military operation in the eastern and the western theatres of war. With a censation of hostility normal trade relation requires immediate restoration but the war has distorted the entire economic and monetary structures of all countries. Hence the restoration of normal commercial relation between countries is an international concern. The Bretton Woods Conference was called upon to devise an international monetary plan which would secure exchange stability and promote the healthy growth of international trade. The plan which came out of the conference may be briefly summed up as follows :—

(i) A fund to be named as the International monetary fund must be raised to the extent of \$ 8,800,000,000 by means of subscriptions from the member countries.

(ii) The subscription payable by a member will be determined by the quota fixed. Contribution in gold will be insisted upto 25 per cent of the quota or 10 per cent of the net official holding of gold or dollars whichever is less. The balance will have to be paid in terms of the members own money.

(iii) Each currency shall bear a relation with gold as a common denominator or with the U. S. dollar. This exchange value can be altered to the extent of 10 per cent by the member on his own accord and 10 per cent more with their consent of the fund.

(iv) The fund will be devoted to the purchase and sale of member currencies for one another with this limitation that the holding of any member countries currency will not exceed 200% of its quota.

(v) The fund may introduce sliding scale system of charges to be imposed against members on the basis of the average daily balance in excess of the prescribed quota.

(vi) The fund may replenish the stock of any particular currency when it becomes scarce and compel the member whose currency becomes scarce to sell his currencies for gold.

(vii) The fund will be administered by a Board of Governors appointed by the members. The Board will have a life of five years and will be assisted by a Board of Executive directors in which U. S. A., U. K., U. S. S. R., France and China will have permanent seats.

Sec. 38. Should India be a Member of International Monetary fund.

The desirability of India's joining.

The question that now arises is whether India should join the I. M. F. The plan requests India to join it and has fixed her quota at 400 million dollars. India can have no objection to join this Fund in view of her ever-increasing commercial relations. Again, it is not desirable that India should form an isolated unit and reject a scheme which aims at exchange stability and is designed to promote international dealings. In the Post-war period India will have to adjust her international relations with due reference to her industrial development. India's currency bears no relation to gold and the membership in the I. M. F. will go to link her currency with gold and stop wide fluctuation in the exchange rate. India should join the I. M. F. for one more reason. The International Reconstruction Bank has been proposed to be constituted and India's membership in the I. M. F. will be a condition precedent to her participation in the proposed Bank. All these facts make a strong case for India's joining the I. M. F. But India cannot accept the plan in toto. In view of the increasing participation of India in the foreign trade and her abundunt economic resources India's quota should be raised above that of France and China. Again, India can legitimately claim a permanent seat in the Board of Executive Directors. The restriction imposed upon alteration in the rate of exchange should be relaxed in order to enable India to return to normal rate and free exchange in the present period.

Sec. 39. The Future Fate of the Rupee-Sterling Exchange.

Problem of fixing Exchange.

The fate of India's foreign trade depends greatly upon the relation of the Indian rupee with the sterling. During the war time the Exchange ratio has been artificially maintained and the Import and the Export trade have been strictly regulated to meet the exigencies of war. Though the external value of the rupee has been artificially maintained its internal value has witnessed heavy depreciation mainly on account of the inflationary policy of the Government of India. This disparity between the external value and the internal value of the rupee is inimical to the interest of the country and must be removed at any cost. The post-war monetary reconstruction plan must embrace the problem of fixing the exchange rate between the Indian rupee and other currencies and of defining its true relation with sterling. We all know that the purchasing power of the rupee has fallen greatly while the purchasing powers of other currencies have remained almost stationary. This at once makes a strong case for substantial depreciation of the rupee-exchange rate but the difficulty arises in determining the exact ratio which the Indian rupee will bear with foreign currency. The purchasing powers of the different currencies may be the basis of the exchange rate but it is still uncertain where the post-war price levels of different countries will stand. Again, it will not be safe to launch into a sudden and drastic deflationery policy because such a measure will bring detriment to the whole economic structure, create discontent, among labourers and impede the growth of India's growing industries. The foreign countries on the other hand may not maintain the present price levels and the cost structures and may withdraw in near future the system of subsidization which account for their artificial stability. There is a great likelihood that price levels and cost structures will be raised during the post-war reconstruction period. Hence it will be unwise to fix the rupee-sterling exchange with reference to the existing price levels in India and the United Kingdom.

The Indian opinion does not fully endorse the view of sudden and drastic depreciation of the rupee-sterling exchange rate because such a measure will adversely affect the trade and industry of the country. A case for appreciation of the Exchange rate has been made out. It will enable India to purchase capital, goods at less cost and get foreign commodities at cheaper prices. The persons with fixed income will enjoy greater purchasing power and this will go to raise their standard of living. It has been argued that the policy of appreciation will encourage the import of foreign goods to the detriment of the

Indian manufactures. If this is so the industries concerned should be granted protection. In the same way India need not fear from fall in her export of raw materials in view of the heavy demand for them in the home market during the period of Post-war reconstruction. There is however one patent disadvantage in regard to sterling balances which a policy of appreciation will bring in. An appreciation in the exchange rate will mean considerable reduction of the balances in terms of rupees. If these sterling balances are our real assets. We will surely lose a great deal by such a policy. But it is apprehended that these sterling resources will be ultilised in purchasing capital goods from England which is a dear market for those goods. If that be the position the reduction or elimmation of our sterling resources can be no ground for our adopting the policy of depreciation.

Questions and Answers

Q. 1. Briefly summarise the recent currency legislation In India. Indicate briefly the circumstances that led to it and explain the necessity of artificially maintaining the exchange in India's favour. (C. U. 1910).
Ans. *See*—Secs. 1 and 2.

Q. 2. The rupee coinage of India is to all intents and purposes a token coinage. (C. U. 1911, '12).
Ans. *See*—Sec. 3.

Q. 3. The rupee is for some purposes merely inconvertible money printed on silver. (C. U. 1911, '12).
Ans. *See*—Sec. 31.

Q. 4. Carefully explain—How does the rupee, though unlimited legal tender, fail to satisfy the full condition of standard money ? (C. U. 1911, '12).
Ans. *See*—Secs. 31 and 52.

Q. 5. What do you know of the Gold Standard Reserve Fund ? (C. U. 1911).
Ans. *See*—Sec. 13.

Q. 6. Briefly summarise the Currency Legislation of 1893 and 1899 in India. Indicate the circumstances that led to it and explain the necessity of artificially maintaining the exchange in India's favour.
Ans. *See*—Secs. 4, 6, 1 and 2.

Q. 7. The rate of exchange is kept from failing by the combined effect of the closing of the mint to the free-coinage of silver and the balance of trade in favour of India. (C. U. 1914).
Ans. *See*—Sec. 7.

Q. 8. Analyse the arguments for and against the introduction of Gold Currency into India. (C. U. 1934).
Ans. *See*—Secs. 21 and 22.

Q. 9. What was the central problem that was considered by the India Currency Committee of 1893? What bearing has the quantity theory of money on the solution of this problem? (C. U. 1916).

Ans. *See*—Secs. 2(a) and 3.

Q. 10. What is the Paper Currency Reserve? In what form is it kept and what is the object of keeping it? (C. U. 1917).

Ans. *See*—Secs. 28 and 32.

Q. 11. What is the usefulness of each of the component parts of the Paper Currency Reserve? Why is it considered advisable to keep a portion of the Reserve in London? (C. U. 1917).

Ans. *See*—Sec. 30(ii).

Q. 12. Explain precisely the meaning of a Gold Exchange Standard. How does it differ from a simple Gold Standard? Which of these two standards do you consider the better for India and why? (C. U. 1919).

Ans. *See*—Secs. 6 and 23.

Q. 13. What is the Gold Standard Reserve? Give reasons for and against the keeping of this reserve in London. (C. U. 1923, 1939).

Ans. *See*—Secs. 13 and 14.

Q. 14. Show the main features of our recent currency situation. (C. U. 1921).

Ans. *See*—Secs. 10, 17 and 19.

Q. 15. Write notes on 'Reserve Councils' and Gold Standard Reserve. (C.U. 1922).

Ans. *See*—Sec. 13.

Q. 16. Trace the history of the Indian currency system from 183 to 1900. (C. U. 1923).

Ans. *See*—Sec. 1.

Q. 17. Describe briefly the essential features of the Gold Exchange Standard. What part does the Gold Standard Reserve play in the Indian Currency system? (C. U. 1924).

Ans. *See*—Secs. 6 and 13.

Q. 18. Stability of Exchange is essential from the point of view of foreign trade. (C. U. 1924).

Ans. *See*—Ch. XIII, Sec. 9.

Q. 19. How did the value of silver influence the Indian Exchange (a) during the period 1876-93 and (b) during the period 1917-20? (C. U. 1925, 1944).

Ans. *See*—Secs. 1 and 8.

Q. 20. Summarise the main provisions of the Indian Paper Currency Act of 1910. (C. U. 1925).

Ans. *See*—Sec. 28.

Q. 21. Trace the circumstances that led to the adoption of the Gold Exchange Standard in India. Describe the chief features and indicate the causes of its breakdown during the last European war. (C. U. 1926).

Ans. *See*—Secs. 1, 2 and 8.

Q. 22. What are the effects of a high sterling value of the rupee upon (a) Indian trade and industries, (b) Home charges? (C. U. 1926).

Ans. *See*—Sec. 12.

Q. 23. Show how the exchange value of the rupee was maintained at 1*s*. 4*d*. before the war and discuss the advisability of going back to the pre-war Exchange rate. (C. U. 1927).

Ans. *See*—Secs. 7 and 22.

Q. 24. "A gold exchange standard cannot provide an efficient remedy for the defects of the existing system of Indian currency." Discuss. (C. U. 1927).

Ans. *See*—Sec. 19.

Q. 25. Describe the main features of the Indian Paper Currency System and state how far the recent changes have increased the security and elasticity of note-issue. (C. U. 1928).

Ans. *See*—Sec. 29.

Q. 26. Write brief notes on Reverse Councils ; Gold Exchange Standard.

Ans. *See*—Secs. 6 and 7. (C. U. 1929).

Q. 27. Discuss the economic importance of the stabilisation of the rupee. Would we advocate a reversion to the 1*s*. 4*d*. rate ? Discuss the economic effects of such a policy. (C. U. 1929).

Ans. *See*—Secs. 23 and 25(a).

Hints.—Absence of a fixed rate of exchange hampers trade and commerce—promotes speculation—checks investment of foreign capital—Producers suffer from uncertainty in prices—Budget cannot be estimated accurately.

Q. 28. Write notes on Council drafts. Reverse drafts, the Gold Exchange Standard. (C. U. 1931).

Ans. *See*—Secs. 6 and 7.

Q. 29. What is the Paper Currency Reserve and what are its objects ? Explain the form in which it is kept, and discuss how far the policy of keeping a part of it in London can be justified. (C. U. 1930).

Ans. *See*—Secs. 28 and 30.

Q. 30. Examine the composition and functions of the Paper Currency Reserve.

Ans. *See*—Sec. 28. (C. U. 1932).

Q, 31. Describe the main features of the Gold Exchange Standard. Show how it differs from the Gold Bullion Standard. (C. U. 1935, 1943).

Ans. *See*—Secs. 5 and 24.

Q. 32. Why was the Indian mint closed to the free coinage of silver in 1893 ? Was that policy successful ? (C. U. 1939).

Ans. *See*—Secs. 2, 2(a), 2(b), 4 and 6.

Q. 33. Give a descriptive outline of the Currency system prevailing in India during 1893-1917.

Ans. *See*—Secs. 1 to 8.

Q. 34. Describe the present arrangements for the issue and regulation of paper currency in India.

Ans. *See*—Sec. 29.

Q. 35. Describe the principal feature of the Gold Exchange Standard. What led to its breakdown in India during the war ?

Ans. *See*—Secs. 2, 5 and 8.

Q. 36. Describe the main features of the present sterling Exchange standard of India. What are its merits and defects ? (C. U. 1940, 1942).

Ans. *See*—Secs. 26(*d*) and 26(*e*).

Q. 37. Describe in broad outline the manner in which the rupee-sterling exchange is regulated. (C. U. 1941).

Ans. *See*—Sec. 31(*a*).

CHAPTER XVI

BANKING AND CREDIT

Sec. 1. Credit is an Indispensable Factor in Business.

The importance of credit in modern state.

Production cannot be carried on without capital. In primitive societies when articles were produced by an antiquated method capital did not play an important part : but with the introduction of scientific method of production capital has come to be the most important agent of production. A modern producer has to invest a large amount of capital in up-to-date machinery and has to keep in hand an equally large sum to meet the ordinary expenses of his business. He may not have with him sufficient amount of funds and hence arises the necessity of borrowing. He will sometimes approach the banks or any other financier for loan ; but he will hardly succeed in securing such loan unless he has some attribute which induces the financier to favour him with credit. Again, we find that an able businessman will be in a position to purchase the raw materials on credit. It is, therefore, no exaggeration to say that modern business cannot be carried on successfully without the help of credit.

In India the business is mainly financed by the shroffs in the towns and by the *mahajans* in the villages. The absence or inadequacy of banking facilities has stood in the way of India's success in the sphere of production. The rate of interest that is charged by the village *mahajan* is exorbitant and the agriculturists of India suffer greatly on that account. In the towns traders are mainly financed by the shroff who charges a higher rate of discount and thereby reduces the rate of profit derived by them.

Sec. 1(a). Absence of Banking habit : How to Develop such habit.

Causes of the hoarding habit.

Indians are proverbially shy and conservative. Their income is small and scarcely exceeds their expenditure. The result is that very few persons can afford to save money ; even when saving is possible, this saving is of a temporary nature and is usually spent

during ceremonial occasions. Of course there are some habitual savers who hoard money for good and will never be willing to part with it. These savers render no useful service to the community because their savings are never available for ameliorating the distress of the poor and the needy. Thus we see that the stock of capital is very small and this small stock of capital is generally hoarded. People are shy and will never give up their old habit of hoarding. There are many profitable sources of investment but the capitalists are not bold enough to take the risk of investing their humble stock of capital. This hoarding habit was originally due to the insecurity of life and property in ancient India. The British rule in India has no doubt made life and property safe but the habit has become too old to be given up. The banking institutions have already been established in almost all important towns but these cannot inspire confidence and attract substantial deposits. Again, a number of bank failures occasioned by unscrupulous managing directors have already shaken the growing sense of confidence in banking institutions. The facilities for the growth of banking habit are too inadequate for a vast country like India. In the mofussils there is scarcely any banking organisation and the village money-lender still saps the vitality of the poor peasants. Attempt should be made to encourage the banking habit of the people. This can be done in the following ways :—The banking institutions should be established in villages and people should be taught the utility of having accounts with some such institutions. The management of banks should be controlled and their accounts should be audited by an impartial body so that unscrupulous managing directors may not find any opportunity to deceive the investors. The Reserve Bank of India should be placed at the helm of banking affairs and control the money-market. The Government should promote the growth of co-operative banking institutions both in the towns and in the mofussils in all possible ways. The Postal Savings Banks should extend banking facilities by allowing the depositors to withdraw money by cheques. An attempt should also be made to remove illiteracy which hampers the growth of banking habit. The system of currency should be so remodelled as to make gold available whenever required by the people. The issue of gold certificate as recommended by the Hilton Young Commission may be an important step in this direction. Special women's cash certificate may be introduced with a view to attracting the stock of *stridhan* gold which often remains barren in the form of ornament. The introduction of National Savings Association of the type which prevails in England may go a great way in promoting thrift and the habit of investment.

Sec. 2. The History of Indian Banking system : Insufficiency of Banking Institutions.

Banking organisations were not unknown in India.

The unity of banking organisation was not unknown in ancient India. The use of the tern "kushid-jibis" in ancient texts of Manu goes to show that there existed a class of professional bankers in ancient India. The history also records instances of several famous bankers like Jagat Seth and others who had great influence within the country ; these indigenous bankers of India used to take deposits from people who approached them for money. The idea of joint stock banking was unknown in those days. Each firm was either a single proprietory or partnership concern with a single or joint unlimited liability as the case might be. They were sometimes dealers of bullion and ornaments. During the time when the country had in circulation large varieties of metallic money they used to perform the important functions of changing coins. They often combined trade with ordinary banking business. These bankers have not disappeared from India with the introduction of banking system on a European model. They have been readering yeomen's service to the trading community by financing the agriculturists the artisans and the traders.

The Bank of Bengal was established in 1806.

The nineteenth century is a remarkable period in the history of banking development inasmuch as there was considerable extension of banking facilities during that time. On May 1, 1806 the Bank of Bengal opened its doors under the name of Bank of Calcutta. The name of the bank remained unaltered till 1909 when the first charter was granted to the Bank. The charter provided for the management of the bank by nine directors three of whom should be nominated by the Government to represent their own interest. The capital of the bank was increased from time to time and in 1876 when the 'Presidency Bank Act' was passed it stood at £2,200,000. Previous to the origin of the Bank of Bengal the banking transactions were performed to a considerable extent by the Agency House in Calcutta. The Hindusthan Bank was established by one of the Agency Houses in 1700. These Agency Houses introduced the system of issuing notes or cheques which were unknown in India. Such Agency Houses played an important part in the banking system of India till 1830 when a great commercial crisis broke out and led to the failure of a number of these firms. The failure of these Agency Houses and the Rajkissen Dutt forgery case prejudicially affected the financial position of the Bank of Bengal. The Hindusthan Bank had to close its doors in 1832.

The other important banks came into existence during this period.

The Bank of Bombay and the Bank of Madras.

The Act III of 1840 established the Bank of Bombay and the Bank of Madras was constituted by the Act IX of 1843. The three Presidency Banks thus created were at the head of the banking organisation. They had the privilege of issuing notes till the said right was taken away by the Government in 1862. The Government was in intimate touch with these banks and had certain shares in them; but in 1876 the Government retired from their position as a share-holder and ceased to have any voice in the election of directors. In the latter part of the nineteenth century many important joint-stock and exchange banks came into existence. These banking institutions have been since their creation financing the trade of India but their number is not sufficient for a vast country like India. Again, the belated appearance of a Central Bank is in a way responsible for the want of that concerted action which counts much for success in the organisation of banking in a country. The existing banks enjoyed an independence which was unknown in other parts of the world. The Imperial Bank of India which was created in 1920 by amalgamating the three presidency banks had no control over them. In 1935 the Reserve Bank of India was established. Since then the banking system of India is being controlled by a Central Bank. The number of scheduled banks affiliated to the Reserve Bank is gradually increasing. In recent times there has been considerable progress in branch banking. During 1939-40 the total number of offices, branches, pay offices, etc. of the scheduled banks increased from 1,144 to 1,290. This growth of banking institution is not adequate and cannot favourably compare with expansion of banking facilities in the United Kingdom. The number of banks per million of population is 285 in the United Kingdom while it is only 2 in India.

Sec. 2(a). The Indian Money market: its Character.

There is in India scarcely an organised money market of the type to be found in countries which have already flourished in the sphere of trade and industry.

Want of organised money market.

There are various constituents, each virtually independent of the other and shaping its own policy in rivalry with other constituent members of the money market. Again, there is no clear demarcation of business and we often find the Exchange Banks encroaching upon the sphere of joint-stock banks. This accounts for a want of wholesome relation and a spirit of co-operation among the various banking agencies of the country. Again, the banking institutions are not organised on a uniform principle. The joint-stock banks follow the

method of modern banking on European lines while the indigenous bankers (the shroffs) still maintain their old traditional method. The indigenous bankers, again, do not form one compact group and are found to stand divided. The result is that the Indian money-market is vitiated by confusion and chaos in respect of money rates which bear little or no relation to the Bank Rate.

This disorganisation and confusion in the banking system of the country are due to the belated appearance of the Central Bank (The Reserve Bank of India) in the domain of banking. The Reserve Bank of India has already commenced its work and it is expected that in near future it will succeed in getting control over the money market if serious attempt is made to settle its relation (which even now remains unsettled) with the indigenous bankers and to multiply the number of scheduled banks.

Another feature of the Indian money market is the seasonal variation and wide fluctuation in the rates of interest consequent upon maladjustment between supply of money and the demand for the same. Monetary stringency during busy season (November to June) is due to the managed system of currency and the locking up of money in the vault of Reserve Treasuries in the past. Again, the divorce of the currency system from the banking system till the advent of the Reserve Bank of India, the policy of artificial contraction followed by the Government in raising the exchange value of the rupee and the absence of an organised bill market have brought about inelasticity in the monetary system and thrown obstacles in the way of smooth working of credit mechanism.

The inelasticity has been removed in a great measure by the policy of the Reserve Bank in regard to Treasury Bills. When there is noticiable redundancy the Treasury Bills may be issued to absorb the surplus currency. Again the time for maturity has been fixed with due reference to the possible demand for currency during the busy season.

One more difficulty in the money market is the maldistribution of banking facilities in the rural areas. We often find undue concentration banks in the urban areas while the banking institutions are conspicuous by their absence in the villages.

Sec. 2(b), The Constituent members of the Indian Money Market and their Activities.

The part played by the shroffs.

The Indian money market consists of a number of quasi-independent agencies each playing some part in the organisation of credit and in the financing of business. The indigenous bankers, viz., the shroffs figure prominently in the Indian money market and render

real services to the business community by granting financial accomodations. They act as intermediaries between the trading community and the Banks. The shroffs are usually approached through hundeebrokers who get certain commission from the businessmen for the service they render in securing for the latter financial accomodation from the shroffs. The shroffs usually advance money against hundees drawn at a currency of about two months; they offer higher rate of interest and can for that reason secure larger deposits. Under the present system of banking regulation the shroffs have played an indispensable role in keeping the trading community alive.

The shroffs receive assistance from the banks.

When the demands for credit are too larger for their purse the shroffs usually approach the banks for assistance and present the bills they hold for discount under their endorsement. The rates charged by the shroffs are usually based on the rates at which they in turn can discount the bills with the bank and necessarily vary according to the standing of the borrower and with the season of the year. The rates charged by the banks in discounting commercial bills are slightly higher than the official Bank rates fixed by the Reserve Bank of India for demand loans against Government securities only. During the monsoon months when the Bank rate is sometimes nominal, it often happens that commercial bills are discounted at the official rate or even at a lesser rate.

The commercial banks including the exchange banks usually discount these inland trade bills and the exchange banks discount the foreign bills and thus grant accommodation to the trading community.

There are also Stock Exchanges at Bombay, Calcutta, Madras and Lahore. These deal with the shares of various companies and play an important part in the money-market of India.

The part played by the Reserve Bank of India.

The establishment of the Reserve Bank in India has removed the long-felt want of a Central Bank in India. Like the Central Banks of other countries the Reserve Bank of India is playing the part of Bankers' Bank and has been compelling the scheduled banks to maintain with the Reserve Bank a balance the amount of which shall not at the close of business on any day be less than 5 per cent of the demand liabilities and two per cent of the time liabilities as shown in the Return which the banks are under obligation to submit on each Friday. This shows what a rigid control the Reserve Bank of India will have over the Indian money-market.

Sec. 2(c) Bill Market : Its Deficiencies : Suggested Remedies.

The existence of an organised bill market is the very A B C of an efficient money market in view of the fact that trade and commerce of the country are financed by the banks by discounting and re-discounting inland and foreign bills. In India the bill market is highly deficient and this deficiency is due to the following causes :—

(i) The banks in India have got to maintain stronger reserves and cannot for that reason afford to invest substantial amount in discounting bills ; (ii) The character of bills or the bazar hundees is unsound and the joint-stock banks hesitate to discount them unless they bear the endorsement of a shroff whose name is to be found in the list of approved shroffs ; (iii) The lack of re-discounting facilities in the past and the un-wholesome rivalry between the joint-stock banks and the then premier bank, i.e., The Imperial Bank of India, hampered the development of an efficient bill market in India ; (iv) The advent of the Reserve Bank of India has failed to foster the growth of bill market partly because the re-discounting facilities offered by the Reserve Bank of India are not available to the Scheduled and Provincial Co-operative Banks and partly because there is as yet no link which connects the Reserve Bank with the indigenous bankers who play an important part in the inland bill market of India ; (v) The system of cash credit which characterises the inland trade of India goes to reduce the number of inland trade bills ; (vi) The want of a common language in which bills are to be drawn, the heavy stamp duties, want of diffusion of banking facilities in the rural areas and the appalling illiteracy of those engaged in trade are other obstacles which stand in the way of an efficient organisation of bill market in India.

Various suggestions have been made for improving the position of bill market. It is interesting to have a brief review of the suggestions made by the Central Banking Enquiry Committee :—(i) The Reserve Bank of India should offer facilities at a minimum rate for re-discounting first class trade bills and commercial papers presented by the joint-stock banks ; (ii) the nature of the bills should be improved by promoting the growth of genuine documentary bills founded on goods ; to facilitate the creation of such bills warehouses should be established in various parts of India ; (iii) Bill forms should be printed in English and Indian languages in parallel ; (iv) The system of bank acceptances should be introduced for facilitating easy negotiation of trade bills ; (v) The existing rate of stamp duty imposed on Usance bills should be reduced ; (vi) The Co-operative banks should come forward to extend discounting facilities to the Co-operative

Godown Societies which will finance the agriculturists ; (vii) The use of foreign bills should be encouraged by introducing the rupee import bills instead of sterling import bills which the Indian banks cannot deal with.

Sec. 3. The Essential Features of the Indian Banking System.

The banking organisation is still in its infancy in India. This is because industrial revolution is not yet compete in India and the importance of credit in the sphere of industry and commerce has been appreciated only in recent time.

Rate of interest is abnormally high.

In the rural areas the village *Mahajans* play an important part even in these days. The few banks that exist in India cannot give relief to the poor agriculturists and the influence of the village *Mahajans* goes unchallenged. The rate of interest charged by these unscrupulous *Mahajans* is abnormally high. In recent times the co-operative credit societies are rendering yeomen's service by providing the agriculturists with the cheap credit.

In the urban areas there are also indigenous bankers who figure prominently in financing the inland trade of the country. These bankers are known as the shroffs and sahukars and they render valuable assistance to the trading community by discounting the inland bills. They are independent in this sense that they carry on their lending operations with their own capital. In modern times they have developed their connection with the Imperial Bank and other joint-stock banks and are found to approach them for re-discounting their hundees. Besides these shroffs, there are the urban co-operative credit societies whose importance as credit institutions cannot be ignored.

The Imperial Bank of India which came into existence as a result of the amalgamation of the three Presidency banks played an important part in the system of Indian banking. The establishment of the Reserve Bank has ousted Imperial Bank from its premier position.

Besides the Imperial Bank of India, there are few joint-stock banks carrying on banking business in India. Their number is too small to meet the requirements of a vast country like India. They are mostly located in big towns and commercial centres. Most of this banks are under European management and do not afford facilities for the training of the Indians in banking. Their funds are utilised in discounting the inland bills and in making advances to their customers. The

management and organisation of these banks is far from being satisfactory and the defects inherent in them account for the failure of these institutions.

As the ordinary joint-stock banks were concerned with the financing of the inland trade, the necessity of a separate institution for the financing of foreign trade of India was keenly felt. This led to the establishment of a number of Exchange Banks. These banks have their head offices in foreign countries and finance the export and import trade of India. They generally discount the D/A and D/P bills and effect a transfer of funds from one country to another in accordance with the requirements of trade. The management of these banks rests in the hands of foreigners who have been accused with the charge of according more sympathetic treatment to their nationals. They have formed as it were a foreign money trust and have been ousting the indigenous banking institutions from the field of internal banking.

The Government of India is itself a Great Banker. It had the sole privilege of note-issue till the transfer of the privilege to the newly created Reserve Bank. It has opened Postal Savings Bank Department and attracts deposits by paying interest at a certain rate. It has also made arrangements for the granting of Takavi loans to the agriculturists.

Absence of Industrial banking.

Another kind of banking institutions which figures prominently in the banking system of all industrial countries is the industrial bank which can invest its capital in industries and contribute to the growth of industries in India. The industrial banking is still in its infancy in India. The land mortgage bank have not as yet made a headway and the agriculturists suffer greatly on that account. The deposit banking has not as yet made considerable progress and the habit of using cheques is still to be acquired. The branch-banking is yet in its infancy and the rural areas do not derive any benefit from the banking institutions. The absence of a well-equipped bill market presents another difficulty which impedes the growth of acceptance houses and accounts for the inadequacy of re-discounting facilities.

Sec. 3(a) Indigenous Bankers : Defects in their organisation.

Their responsibility.

The indigenous bankers play an important part in the Indian System of banking. The number of joint-stock banks is yet two small to meet the requirements of trade. The responsibility of financing trade is mainly

left with the indigenous bankers who are aided by the commercial banks in the matter of re-discounting certain classes of trade bills. The Imperial Bank seldom favours these bankers with such remittance facilities as are enjoyed by the commercial banks.

For this unwholesome relation between the indigenous bankers and the organised banks the indigenous bankers themselves are to a great extent responsible. The exhibit an organisation which is far from being scientific. They follow the traditional line of keeping accounts and are not ready to publish their balance sheet. They rely principally upon their own capital and do not like to develop deposit banking. They often advance money against personal security.

In spite of all their faults the indigenous bankers are indispensable middlemen who buys the hundees drawn by the trading community, charge a rate of discount higher than the bank rate and rediscounts the same with the big commercial banks. A more organic relationship between the indigenous bankers and the joint-stock banks is urgently called for in order to place the banking system on a sound footing. The Reserve Bank of India will surely fail to bring under effective control the entire credit structure of the countries unless this organic relationship is established.

Sec. 3(b). How to Improve the Banking System.

What the Reserve Bank of India can do.

The establishment of the Reserve Bank of India is step towards the co-ordination of banking policy in India. It is expected that this bank will successfully act as a Bankers' Bank and when aided by the member banks' mobilised reserve, an elastic note-issue and a well-considered discount policy will secure the development of a bill market, offer immense facilities for the re-discounting of bills, facilitate the creation of rupee bills and lower the rate of interest prevailing in the country. It will control the member banks and will make failures rare.

With the Reserve Bank of India at the helm of the banking affairs it will be now possible to initiate the following reforms in the banking organisation of the country :—

(i) The unhealthy competition between the Exchange Banks and the Indian joint-stock Banks should be removed at all cost.

(ii) The ideal of co-ordinated and not competitive banking between the different institutions has to be worked out in actual practice.

(iii) The anti-national tendency of the foreign exchange banks should be checked by the adoption of a system of granting licenses on the lines recommended by the Central Banking Enquiry Committee as well as by the creation of the Indian Overseas Bank which will at once launch upon a policy of according more favourable treatment to Indian exporters and importers in the matter of financing their export and import bills.

(iv) The indigenous banking should be remodelled on the lines suggested by the different Provincial Banking Committees and the Central Banking Enquiry Committee. The indigenous bankers who are willing to carry on purely banking functions should be placed in the approved list of the Reserve Bank of India and be given the same rediscounting and remittance facilities as are enjoyed by the joint-stock banks. They should be given the privilege of the Banker's Books Evidence Act. They should be made to adopt modern method of banking and get their accounts properly audited. They should be eligible for membership of the All-India Bankers' Association. They should undertake the business of a bill-books with a view to developing on efficient bill-market in India. The modernisation of the indigenous banking institutions and the developing of these into real financial intermediaries between the organised money-market and the ultimate borrowers should be accomplished at an early stage.

(v) State-aided Industrial corporations should be established in the provinee and the working capital should be secured by floating debentures with a guranteed rate of interest.

(vi) The growth of co-operative non-credit societies should be fostered.

(vii) The number of Land mortgage banks should be increased and the state should render substantial assistance in popularizing these banks and favour them with the privileges of exemption from stamp duties, registration fees and income-tax.

(viii) The existing Indian Companies Act should be supplemented by special Banking Act incorporating provisions for official regulation and Central banking supervision and for licensing the banks strictly so called.

The banking legislation should be introduced on the following lines suggested by the Reserve Bank of India :—First, an attempt has been made to define banking ; secondly, the institutions calling themselves banks should be started with sufficient capital to enable them to carry on their business at reasonable profits ; thirdly, some restrictions on

bank investments to protect the depositing public are urgently needed; and lastly, an endeavour should be made to expedite liquidation proceedings so that in the event of bank failure the depositors may be paid off with the minimum delay and expense.

To obtain effective control over credit the Reserve Bank of India should attempt to effect wholesome co-ordination between the indigenous banking system and the present joint-stock system in view of the important part which the shroffs play in the Indian money market. The Central Banking Enquiry Committee strongly recommended such co-ordination: when the Reserve Bank came into being it prepared and issued a draft scheme on the 26th August, 1936 and another scheme in August, 1937.

The second scheme asked the indigenous bankers to adopt a banking method similar to that of a joint-stock Bank and to develop the deposit side of banking. It also provided for registration in the book of the Reserve Bank of such indigenous bankers as would succeed in raising their capital to Rs. 5 lakhs in five years. They were asked to give up their non-banking business within a reasonable time. They must keep proper books of account and have them audited by registered accountants. They would not be required to keep the statutory deposits during the period of five years unless their time and demand liabilities were five times and more in excess of their capital in the business. The shroffs have not agreed to follow the scheme. Hence the Reserve Bank has not as yet established any direct relation with the indigenous banks.

Sec. 4. The Functions Performed by the Presidency Banks.

Ordinary functions of the bank.

The Presidency Banks used to perform the ordinary banking functions subject to certain restrictions. The ordinary banking functions were (1) deposit, (2) discount, and (3) the note-issue. The Banks used to keep the deposit of the people and pay interest for the same. The money that accumulated in their vault was not kept idle but was utilised in purchasing securities of the Government of India and of several other Governments. They could invest their money in shares of certain Railway Companies. They could lend money against securities but loans could not be granted upon the mortgage of immovable property or against personal security. The loan could be made against promissory notes provided the latter bore the name of at least two persons. They could discount, buy or sell bills of exchange which were payable in India or Ceylon. They could buy gold and sell gold and silver and manage Government loans at the Presidency towns and the debt business of certain municipalities.

They could not lend out money for a longer period than six months. This restriction was imposed because the banks used to utilise the money deposited with them and they were under obligation to repay the amount so deposited whenever demanded by the depositors.

Privilege of note-issue.

The banks enjoyed the privilege of note-issue for a period of time but this privilege was withdrawn by the Act of 1861. The notes issued by them did not circulated freely but were almost confined to the Presidency towns. As a compensation for the withdrawal of the privilege of note-issue the banks were given the privilege of keeping Government cash balances. Between 1863 and 1876 the entire cash balances of the Government were kept with the Presidency Banks; with the creation of Reserve Treasuries certain minimum cash balances were kept with the Presidency Banks and the Government agreed to pay interest on the difference between the actual deposits and the minimum fixed. In 1921 the Reserve Treasury system was abolished and the Government balances over and above the amount kept in the district and sub-treasuries were deposited with the Imperial Bank of India till the creation of Reserve Bank of India. The Presidency Banks also used to manage the public debt and receive certain remuneration for the said services.

Sec. 5. The Amalgamation of Presidency Banks : The Imperial Bank of India.

Imperial Bank Act of 1920.

The three Pre idency Banks began to extend their banking transactions graduall). They had established certain intimate relation with the Government by keeping its cash-balances and by managing its public debt. In this way they came to occupy a pre-eminent position in the banking system of India. The other banks of India began to keep their accounts with the three Presidency banks; but the fear from foreign domination was not absent. It was apprehended that the Presidency banks could not retain their proud position unless their position was strengthened by an amalgamation. At first the banks hesitated to bring about such an amalgamation but ultimately their selfish interest prompted them to come to an agreement to that effect. The Board of Directors of the three Presidency Banks drew out a scheme suggesting the manner in which the proposed amalgamation would be made and submitted the same to the Indian legislature. The legislature approved of the scheme and gave effect to it by passing the Imperial Bank Act of 1920. In this way the three Presidency banks became amalgamated into one Imperial Bank of India. The capital and reserve of the new bank was Rs. 15 crores

as against Rs. 7 crores which represented the capital of the old three Presidency Banks put-together. Of these Rs. 15 crores Rs. 11·25 crores were authorised capital and Rs. 3·75 crores reserve fund. The Imperial Bank came to play an important part in the banking system of the country and continued in that proud position till the establishment of the Reserve Bank of India which necessitated substantial change in the constitution and functions of the Imperial Bank. The original Act of 1920 had to be amended by the Imperial Bank Amending Act of 1934.

Sec. 6. Imperial Bank of India : its Present Constitution and position.

The Imperial Bank of India is now governed by the Imperial Bank of India Act of 1920 as amended by the amending Act of 1934. Under the latter Act the control of the Bank is entrusted to a Central Board of Directors with Local Boards at Calcutta, Bombay and Madras and such other places as the Central Board may determine.

The Central Board of Directors shall consist of (a) the Presidents, the Vice-Presidents, and the Secretaries of the Local Boards ; (b) One person elected from amongst the members of each Local Board ; (c) a Managing Director and a Deputy Managing Director appointed by the Central Board and (d) not more than two non-officials nominated by the Governor-General in Council.

Representatives of any new Local Board which may be constituted may be added at the discretion of the Central Board. The Governor-General in Council shall nominate an officer of Government to attend the meetings of the Central Board but he shall not be entitled to vote. The Deputy Managing Director and the Secretaries of the Local Boards are also not allowed to vote.

The new Act has reduced the control of the Government over the affairs of the Bank. The number of persons nominated by the Governor-General has been reduced to two. The Bank is authorised to establish Local Board without the sanction of the Governor-General. It can raise its authorised capital without such sanction and can freely establish branches in and outside India. The limitations imposed upon its London office have been removed.

The financial position of the Bank will be clear from the following statements :—

The present capital of the Bank stands at Rs. 11¼ crores out of which Rs. 5·6 crores have been paid up. The Reserve Fund of the

Bank is Rs. 5·6 crores and the balance sheet in December, 1940 showed the deposits at Rs. 96·03 crores and cash Rs. 24·03 crores with a percentage of cash to liabilities 12·62.

Sec. 7. The Functions of the Imperial Bank.

The Amending Act of 1934 has brought about important changes in the functions of the Imperial Bank. The said Bank can transact the following classes of business :—

(1) Advancing money on the security of :—

- (a) Stocks, etc., in which a trustee is authorised by act to invest trust moneys and shares of the Reserve Bank of India.
- (b) Securities issued by state-aided railways notified by the Governor-general.
- (c) Debentures issued by or on behalf of a district or municipal board or under the authority of any state in India.
- (d) Debentures of companies with limited liability registered in India or elsewhere.
- (e) Goods or documents of title thereto deposited with or assigned to the Bank.
- (f) Accepted Bills of Exchange or pro-notes.
- (g) Goods hypothecated to the Bank against advances.
- (h) Fully paid shares of companies with limited liability or immovable property or documents of title relating thereto as collateral security where the original security is one of those specified in (a) to (g).

Functions of the Imperial Bank.

(2) Advancing money to Courts of Wards against security of estates in their charge for nine months in case of financing the seasonal agricultural operations or six months in other cases.

(3) Drawing, accepting, discounting, buying, and selling of bills of exchange and other negotiable securities payable within or outside India.

(4) Making, issuing and circulating of Bank post-Bills and letters to order or otherwise than to the bearer on demand.

(5) Buying and selling of gold and silver.

(6) Receiving deposits.

(7) Receiving securities for safe custody.

(8) Investing of Bank's funds in certain specified classes securities.

(9) Transacting agency business on commission.

(10) Acting as Administrator for winding up estates.

(11) Drawing bills of exchange and granting letters of credit payable out of India.

(12) Borrowing money on the security of the assets of the Bank either within or outside India.

(13) Doing of various kinds of other business including foreign exchanges.

The following restrictions have been imposed on the business of the Bank :—

(1) It shall not make loan or advance :—

(a) For a period longer than nine months except in certain cases connected with the financing of seasonal agricultural operations ;

(b) Upon the security of stocks or shares of the Bank ;

(c) Save in case of estates in the charge of courts of wards upon mortgage or security of immovable property or documents of title thereof.

(2) The amount to be advanced to an individual or partnership firm is limited.

(3) Discounts cannot be made or advance on personal security given unless such discounts or advances carry with them the several responsibilities of at least two persons or firms unconnected with each other in general partnership.

Sec. 8. The Relation between the Imperial Bank and the Reserve Bank of India.

Commission to be paid by the Reserve Bank.

The Reserve Bank of India has ousted the Imperial Bank from its proud position in the Indian money market. Nevertheless there exists a friendly relation between these two banks and this friendship is the outcome of an agreement which the Imperial Bank has entered into with the Reserve Bank of India. The agreement which will continue for 15 years contains the following provisions, viz. :

At places where the Reserve Bank has no branches, the branch, if any, of the Imperial Bank shall be the sole agent to the Reserve Bank of India and shall for the first ten years receive in consideration of the performance of agency duties a commission calculated at $\frac{1}{16}$ per cent of the first 250 crores and $\frac{1}{32}$ per cent of the remainder of the total receipts and disbursements dealt with annually on account of the Government. As for the remaining

five years the remuneration of the Imperial Bank shall be determined on the basis of the actual cost to the Imperial Bank of India, as ascertained by experts accounting investigation.

Again, in consideration of the maintenance of the existing number of branches the Reserve Bank of India shall, until the expiry of 15 years make to the Imperial Bank the following payments :—

(a) Rs. 9 lakhs per annum during the first five years.

(b) Rs. 6 lakhs per annum during the next five years.

(c) Rs. 4 lakhs per annum during the next five years.

Sec. 9. The Central Bank for India : its Advantages and Disadvantages.

The utility of a Central Bank.

The economic prosperity of a country is intimately connected with the existence of a Central Bank which has control over the money market. In India the want of such a bank has been keenly felt. Various attempts and agitations have been made from time to time for the establishment of a Central Bank. The first proposal for the establishment of a Central Bank in India was made before 1860. This is evident from the speech which in 1859 Mr. Wilson delivered in introducing the bill for the establishment of a Paper Currency Office in India. Next proposal came in 1867 when on account of the failure of the old Bank of Bombay a scheme was submitted to the Government of India for the amalgamation of the Presidency Banks into a Central Bank for all-India. The next proposal for the establishment of such a bank was submitted to the Government by a member of the Fowler Committee ; but the Government did not approve of the recommendation and in consequence did not give effect to the same.

The question of the establishment of Central Bank in India was fully discussed by the Chamberlain Commission to which a memorandum was submitted by Mr. Keynes and Sir Earnest Cable. The Chamberlain Commission recommended the appointment of a body of select experts to consider this question. But as the war broke out at that time no step was taken by the Government in this direction.

The advantages that will follow from the establishment of a Central Bank in India may be summarized thus :—

(*a*) The creation of a Central Bank in India and the transfer of the Government balances to it will make the Secretary of State, to a great extent free from the criticism and cross-examination to which he is now exposed for management of Indian finances. He will then be

held responsible only for important matters concerning financial policy while the Central Bank will be responsible for minor matters.

(*b*) The stringency created in the money market by the withdrawal of money will be removed if the Central Bank is created and is allowed to manage the balances of the Government.

(*c*) The objections to the keeping of large funds in the London money market are avoided.

(*d*) The Central Bank which will be in touch with actual conditions in India will be in position to manage the currency system in the best possible way provided its authority to do so is not unduly restricted. The Central Bank is expected to know the demands for currency and will therefore be able to expand it in the interest of the country. Moreover, a Central Bank has greater opportunities for pushing the circulation of notes and for popularizing them by an increase in the facilities available for convertibility. Again, the divorce of banking function from the function of note-issue and the function of regulating the foreign exchange has necessitated the maintenance of multiple reserves. When all these functions are made over to a Central Bank, only one reserve will be sufficient.

(*e*) The present wide fluctuation of the Bank rate will be moderated. This will be done by the removal of the stringency of the money market through the transfer of balance of the Government to the Central Bank and by allowing the Central Bank to have an office in the London money market.

(*f*) The increase of branches will lead to the increase of banking facilities in many parts of India and to the growth of a habit of making investment.

(*g*) The remittance transaction can be handed over to the Central Bank and the Secretary of State for India will be relieved of much trouble and criticism on that account. Many objections have been raised against this proposal. It has been argued that such a transfer will be injurious to the interest of the existing exchange banks. In order to avoid this criticism Mr. Keynes has in his plan, restricted the action of the Central Bank only to the purchase of sterling bills bearing the endorsement of another Bank. If the action of the Central Bank is so restricted, we find no ground on which the transfer of remittance business can be opposed.

(*h*) The tranfer of remittance transaction will produce many other advantages. First, the trade will be financed in a more direct way than at present. The proceeds of the sale of council bills were generally lent to the London money market until they were wanted by the

Secretary of State with a view to financing the Indian trade by re-discounting the bills of exchange only indirectly. But if the Central Bank takes, as proposed, upon itself the re-discounting business and holds the bills until money is actually wanted by the Secretary of State, the whole of the floating resources will be directly employed in the assistance of India's foreign trade instead of assisting it in a very slight and indirect way through the general help given to the London money market.

Secondly, the floating sterling resources will earn higher rate of interest than at present "partly through the elimination of an intermediate profit and risk and partly because three months' bill can be taken in many cases in which money is now lent for only six weeks."

(*i*) The Central Bank will be of great help to the Exchange Banks as it will take upon itself the function of re-discounting foreign bills. It will contribute greatly to the development of co-operative and industrial banks by re-discounting the agricultural and industrial paper presented to it.

(*j*) The Central Bank will act as 'bankers' bank'. It will become the last resort on which the other banks can fall back in times of difficulty. This action on the part of the Central Bank will, to a great extent, remove the banking crises which, as we find, are often due to the failure of one or two banks.

(*k*) The Central Bank in India would be able to preserve the stock of gold by raising the rate of discount and in this way would facilitate the introduction of gold standard in India.

Several arguments have been advanced against the establishment of a Central Bank in India : but these arguments are superficial in character and based upon conservatism and local prejudices. A brief account of these objections is given below :—

(1) The notes issued by the Central Bank will not be accepted by the people without hesitation because the public cannot place as much confidence in the stability of the Bank as in the stability of the Government. This opinion is not sound inasmuch as we find that notes issued by the Central Banks of other countries have found ready acceptance.

(2) What India requires at present is a body of laws regulating the banking system of the country ; of course, we do not deny the utility of such laws but the establishment of a Central Bank is urgently necessary in order that a general control over the banking organisation may be possible.

(3) The several provinces will quarrel with one another and each will demand the Central Bank to be localised in its own area; but this is immaterial and cannot reduce the importance of the Central Bank.

(4) The interest of exchange banks will be affected but this evil can be avoided by restricting the action of the Central Bank to the re-discounting operation.

Sec. 10. Why the Reserve Bank of India was established? Would a State Bank be a Better Substitute for it?

Proposal of a new Central Bank.

The Hilton Young Commission which was appointed to make recommendations for remedying the defects inherent in the currency system of India found out that the root cause of the currency difficulties was the separation of currency from credit. The management of currency lay in the hands of the Government while the Imperial Bank was partially responsible for the banking reserves of the country. The Committee, therefore, suggested a unification of control over credit and currency by the establishment of a Central Bank. It also recommended a peculiar currency system which was termed as Gold Bullion Standard. It was of opinion that the Gold Bullion Standard properly controlled by the Central Bank would give India a monetary system which would suit Indian conditions and satisfy the demands of the people.

Such a bank will bring advantages to India.

The establishment of the Central Bank known as the Reserve Bank of India would secure for India an autonomy in currency affairs and thereby would facilitate the attainment of political autonomy in the near future. In introducing the Reserve Bank Bill, Sir Basil Blackett spoke highly of the scheme submitted by the Commission in the following manner :—"It will assist the gradual and silent revolution in India's economic life which promises to bring higher opportunities of life and high standards of living to everyone in the country......India will move forward towards that financial and economic development with the granting of additional financial and banking facilities for Indian agriculture, Indian commerce, and Indian industry, which have been the theme and object of one Commission and Committee after another. We shall see the development of a discount market and an acceptance business, of increased facilities for the marketing of produce and, in short, a gradual mobilisation of India's immense potential capital for the development of India's own resources."

There was a strong difference of opinion on the point as to whether the proposed Reserve Bank should be a State Bank or a shareholders' Bank. Preference was ultimately given to the Shareholders' Bank on the ground that it would make the Bank an independent organisation and a true national institution.

Sec. 10 (a). The Constitution of the Reserve Bank.

The Capital of the Reserve Bank of India.

The Reserve Bank of India Act, 1934 authorised the establishment of the Reserve Bank of India to fulfil the pressing need of a Central Bank in India. The Reserve Bank was established and began to function from 1st April, 1935. The share Capital of the Reserve Bank is 5 crores of rupees in shares of Rs. 100 each, fully paid-up. The Reserve Fund of rupees five crores have been provided by the Government in the form of Government Rupee securities. The assets of the Gold Standard Reserve has been transferred to the Bank and amalgamated with the assets of the Currency Department.

The general control of the Bank has been entrusted to a Central Board of Directors consisting of :—

(a) A Governor and two Deputy Governors appointed by the Governor-General-in-Council after consideration of the recommendations of the Board.

(b) Four Directors nominated by the Governor-General-in-Council.

(c) Eight Directors elected on behalf of the shareholders on the various registers maintained by the Bank at Bombay, Calcutta, Delhi, Madras and Rangoon. Of these directors Bombay, Calcutta, Delhi, will have each two directors and Madras and Rangoon will have each one director.

(d) One Government official nominated by the Governor-General-in-Council.

The Governor and Deputy Governors are the executive heads and hold office for such term not exceeding five years as the Governor-General-in-Council may fix.

Local Boards.

Besides this Central Board there is in each of the five areas—Bombay, Calcutta, Delhi, Madras and Rangoon—a Local Board consisting of five members elected from amongst themselves by registered shareholders and not more than three nominated by the Central Board from amongst the registered shareholders.

From the above constitution of the Bank it is clear that the Reserve Bank of India is a shareholders' Bank. It also serves as the Central Bank and the scheduled banks are required to deposit a certain percentage of their demand and time liabilities.

Sec. 10(b). The Statutory Functions of the Reserve Bank of India : How far those Functions have been Assumed.

Functions of the Reserve Bank of India.

The Bank has taken over management of the Currency Department of the Government of India by the creation of an Issue Department to which has been transferred all the assets of the Currency Department. The sole right of issuing bank notes has been vested in the Bank. At the commencement the bank was to issue the Currency notes of the Government of India supplied to it by the Governor-General-in-Council and from the 1st date of April, 1935 on which the privilege of note issue came into force the Governor-General-in-Council ceased to issue Currency notes.

The Issue Department which is to be kept distinct from the Banking Department has at its disposal the combined resources of the Gold Standard Reserve and Paper Currency Reserve.

The Banking Department which has been functioning from 1st July, 1935 performs certain Central and Ordinary banking functions authorised by statute. It is a Bankers' Bank and the Scheduled Banks are required to deposit with this Bank a certain percentage of their demand and time liabilities. The Scheduled Banks have already lodged their statutory deposits with the Bank. The member of Scheduled banks is increasing gradually. Every commercial bank with a paid-up capital and reserves not less than Rs. 5 lakhs can claim the status of a scheduled bank. For the convenience of banking institutions the Clearing House has been transferred from the Imperial Bank to the Reserve Bank of India.

The Reserve bank has been authorised by statute to transact the following kinds of commercial business, viz.—(*a*) the accepting of money on deposit without interest; (*b*) the purchase, sale and re-discount of bills of exchange and promissory notes with certain restrictions; (*c*) the loans and advances payable within 90 days against the security of stocks, funds and securities (other than immovable property), against gold coin or bullion or documents of title of the same and such bills of exchange and promissory notes as are eligible for purchase or re-discount by the Bank; (*d*) the purchase from and sale to Scheduled Banks of sterlings in amounts of not less

than the equivalent of Rs. 1 lakh ; (*e*) the making of advances to the Governor-General-in-Council and to the Local Government repayable in each case not later than three months from the date of making the advance ; (*f*) the purchase and sale of Government securities of the United Kingdom maturing within 10 years from the date of purchase ; (*g*) Purchase and sale of securities of the Government of India or of a Local Government of any maturity or of a local authority in British India or of certain States in India which may be specified ; (*h*) the Bank is also authorised to act as an agent of the Secretary of State-in-Council, the Governor-General-in-Council or any Local Government or State in India for the purchase, sale, transfer and custody of bills of exchange, securities or shares, for the collection of proceeds of any securities or shares and for the remittance of the same and for the management of public debt ; (*i*) the Bank is authorised to conduct what are known as open-market operations and may for regulating credit purchase, sell or discount eligible paper directly in the open market without requiring the signature of a Scheduled or a Co-operative Bank.

The Bank has been managing the Public Debt of the Government since 1st April, 1935. The remittance business was taken over on the 3rd April, 1935 ; on the same date the Bank commenced to invite tenders for the purchase of sterling.

The Bank is also under obligation to sell to or buy from any person making a demand in that behalf at its office in Bombay, Calcutta, Delhi, Madras or Rangoon, sterling for immediate delivery in London at a rate not lower than 1*s*. $5\frac{49}{64}$*d*. and not higher than 1*s*. $6\frac{3}{16}$*d*. respectively, provided that no person shall be entitled to demand to buy or sell an amount of sterling less than ten thousand pounds.

Sec. 10(c). The Reserve Bank and the Agricultural Credit Department.

The Reserve Bank of India makes provision for the creation of a Special Agricultural Department the functions of which will consist in (i) maintaining an expert staff to study all questions of agricultural credit and to furnish the Governor-General-in-Council, the Local Governments, provincial Co-operative banks and other banking organisations with necessary advice and (ii) in co-ordinating the operation of the Bank with the Provincial Co-operative Banks and other institutions of agricultural credit. The Reserve Bank is charged with the responsibility of submitting to the Governor-General-in-Council within three years of its establishment a report containing proposals for necessary legislation on the improvement of machinery for agricultural credit.

The Statutory Report was submitted in 1937. This report is a valuable document as it contains various proposals for working the existing co-operative credit agencies on efficient lines.

Sec. 10(d). The Position of the Reserve Bank in the Money market.

Its unique position in the money market.

The statute has given the Bank a premier position in the money market. By placing at its disposal the mobilised reserve of the member banks, by giving it the sole power of note-issue and by allowing it to launch into open market policy, the statute has elevated the Reserve Bank to the position of a Central Bank having complete control over the Indian money market. It serves as a banker's bank and helps agriculture and industsy at the same time by discounting agricultural bills of nine months' duration and by concentrating within its own hands the power of floating debentures for the Land Mortgage Banks or the Provincial Industrial Corporation.

A number of commercial banks with a paid-up capital and reserve not less Rs. 5 lakhs have been raised to the status of scheduled banks. These banks are under obligation to maintain with the Reserve Bank a balance the amount of which must not be less than 6 per cent of its demand liabilities and 2 per cent of its time liabilities. Again, each scheduled bank has to send to the Reserve Bank every weak a balance sheet showing its total assets and liabilities.

The Bank has to publish the standard rate at which it is prepared to re-discount bills of exchange and thus checks the abnormal rise in the rate of interest by making provision for re-discount facilities. Its influence is felt in the Treasury Bill market. It enables the Government to borrow money at convenient rates. Its rural credit department is expected to render yeoman's services to the land mortgage banks and its savings department will stimulate the growth of capital in India.

The Bank rate of the Reserve Bank cannot always be made effective on the following grounds :—

(*a*) The money-market in India is unorganised and cannot compare favourably with the organised money-market of London. This at once reduces the position of the Reserve Bank in the Indian market.

(*b*) The pre-eminence of the Imperial Bank has substantially crippled the Reserve Bank and the latter cannot exercise any effective control over the credit structure.

(c) The Exchange Banks play an important part in the banking system of India and their rate of discount is often influenced by the rate prevailing in the London money-market.

(d) The shroffs who mainly rely upon their independent funds exercise considerable influence over the bazar rate.

(e) The Reserve Bank is allowed to re-discount certain classes of eligible paper. This rigid restriction gives it little control over the credit system.

Sec. 10(e) Restrictions on the Powers of the Reserve Bank.

The Reserve Bank of India has its powers restricted by the Reserve Bank of India Act, 1934. These statutory restrictions on the functions of the Bank may be summarised in the following lines :—

(a) The Bank shall not engage itself in trade or acquire any direct interest in any commercial or industrial undertaking.

(b) It shall not purchase its share or the share of any other bank or company nor grant loans on the security of such shares.

(c) It shall neither own immovable property except for carrying its own business nor advance money on the strength of immovable property.

(d) It shall neither draw nor accept bills payable otherwise than on demand.

Sec. 10(f). The Issue Department and the Banking Department.

The Reserve Bank of India Act, 1934 which authorises the Reserve Bank of India to issue bank notes makes it obligatory on the Bank to maintain an Issue Department absolutely separated and wholly distinct from the Banking Department in imitation of the practice which is followed by the Bank of England. The said Act, also prescribes the denominations of notes to be issued by the Bank and makes such notes legal tender at any place in British India. The assets of the Issue Department shall consist of gold coins, gold bullion, sterling securities, rupee coins and rupee securities to such aggregate amount as is not less than the total of the liabilities of the Issue Department ; of the total amount of the assets not less than two-fifths shall consist of gold coin, gold bullion or sterling security ; provided that the amount of gold coin and gold bullion shall not at

any time be less than forty crores of rupees in value. The remainder of the assets sall be in rupee coin, Government of India rupee securities of any maturity and such bills of exchange and promissory notes payable in British India as are eligible for purchase by the Bank under sub-clause (a) or sub-clause (b) of clause (2) of section 17 or under clause (1) of section 18: provided that the amount held in Government of India rupee securities shall not at any time exceed one-fourth of the total amount of the assets of fifty crores of rupees, whichever is greater or with the previous sanction of the Governor-General-in-Council such amount plus a sum of ten crores of rupees.

An analysis of the recent statistics of the Issue Department as given at the end of this section shows a substantial increase in the rupee securities and a decline in the sterling securities. The decline in the sterling securities was due to the redemption of sterling debts with those securities in accordance with the scheme announced by the Government of India in 1941. This necessitated an increase in the rupee securities and the said increase was effected by an ordinance which modified the restriction imposed on the Reserve Bank.

The Reserve Bank has also been authorised to issue notes in violation of the requisite proportion of its reserves on payment of certain taxes when sanction for such extraordinary issue has been obtained by the Governor-General.

The Banking Department is concerned with the purely banking functions within the scope of its authority. Those functions include those which the Central Bank should perform in order to get control over the credit mechanism of the country. The Bank acts as the Bankers' Bank and favours the scheduled bank with financial accommodation in order to remove the stringency of the money market.

The Bank also acts as an agent to accept monies for account of the Secretary of State-in-Council and the Governor-General-in-Council and such local Governments as may have the custoday and management of their own provincial revenues and such States in India as may be approved of and notified by the Governor-General-in-Council in the gazette of India and to make payments upto the amount standing to the credit of the accounts respectively and to carry out their exchange, remittance and other banking operations including the management of the public debt.

The aforesaid Governments shall deposit their cash balance free of interest with the Bank.

The Banking Department has been charged with the resposibility of maintaining the stability of exchange and has got to purchase

sterling at a rate not higher than 1*s.* $6\frac{3}{16}d.$ for a rupee and sell sterling at a rate not lower than 1*s.* $\frac{49}{67}d.$ for a rupee when the amount demanded in each case is not less than £10,000. The Bank has to maintain a Reserve Fund to ensure its solvency and to promote confidence in its stability. Such a Reserve Fund has been created to the extent of Rs. 5 crores by the transfer to the Bank of rupee securities of the same value by the Governor-General-in-Council. Again, provision has been made for the allocation of surplus profit (after payment of fixed dividend to the shareholders) to the Reserve Fund when the latter falls short of the share capital and such surplus is less than Rs. 50 lakhs and in case the surplus exceeds Rs. 50 lakhs the sum of Rs. 50 lakhs should be so allocated. When no such contingency arises the surplus profit would go to the State.

The Bank has to publish the Bank rate from time to time. This rate represents the standard rate at which the Reserve Bank is prepared to buy or discount bills of exchange or other commercial paper eligible for purchase under the Act. The Bank has to make a weekly return to the Governor-General-in-Council of the account of the Issue and Banking Departments in prescribed form and publish the same in the Gazette of India. The Return, for the week ending 4th December, 1941 is given below for showing the financial position of the Bank on that date.

Issue Department Liabilities (in crores of rupee)

Notes held—		
In Banking Department	...	Rs. 11·34 crores
In circulation—		
(*a*) Legal Tender in India	...	Rs. 263·54 crores
Total liabilities		Rs. 274·88

Assets (in crores of rupee)

Gold coin and bullion		44·42
Sterling securities		104·76
		149·18
Rupee coin	...	35·35
Rupee securities	...	90·35
Total Assets		274·88

Banking Department Liabilities (in crores of rupees)

Capital paid up ...	5
Reserve Fund ...	5
Deposits—	
(a) Government—	19·39
(b) Banks	29·31
(c) Others	16·14
Other liabilities	4·56
Total	69·40

Assets (in crores of rupees)

Notes—	
(a) Legal Tender in India	11·41
Bills discounted	·98
Balance held abroad	36·09
Ways and Means Advances	12·
Other Loans and Advances	·06
Investments	7·51
Other assets	1·35
Total	69·40

Sec. 11. The Bank Rate.

What is meant by Bank rate.

In the money market of India we find two rates, viz., the Bank rate and the Hundee rate. Before the creation of the Reserve Bank of India the Bank rate meant the rate at which the demand loans or day to day loans were made by the Imperial Bank on the security of Government Paper. The rate charged by the Bank when lending money on securities other than the Government securities was slightly higher than the Bank rate. The establishment of the Reserve Bank in India has taken away this privilege from the Imperial Bank of India and the right to determine the Official Bank rate is now enjoyed by the Reserve Bank. The Bank rate thus has come to mean—the standard rate at which the Reserve Bank is prepared to buy or discount bills of exchange or other commercial paper eligible for

purchase under the Reserve Bank Act. The first official Bank rate announced by the Reserve Bank was 3½ per cent. Now it has come down to 3 per cent. There are several other rates in the money market in India. We have heard of the call money rate which represents the rate charged upon very short period loans payable at the option of either the lender or the borrower. The Bazar rates are those at which the bills of small traders are reported to have been discounted by the shroffs. There is also the Imperial Bank Hundee rate which means the rate at which the Imperial Bank discounts first class three months bills.

Sec. 12. The Government itself is a Great Banker.

Banking functions performed by the Govt.

The Government of India has been described as a great banker. Let us see how far this statement is correct. The banking functions are generally of three kinds :—(1) the deposit, (2) discount and (3) note-issue. The Government of India performs the deposit function to a considerable extent. It has opened a Savings Bank Department in the Post Office. The chief function of the department consists in keeping deposits of the people and paying a rate of interest on such deposits. In 1939-40 the amount outstanding at the Post Office Savings Bank was Rs. 78·38 crores. The Government does not keep any special reserve against the deposit which may therefore be regarded as unfunded debt of the Government. This deposit function as performed by the Government is exactly similar to that performed by ordinary banks.

It pays a lower rate of interest.

The Government in opening Savings Banks Department does not affect the interest of other banking institutions inasmuch as it pays a lower rate of interest and has fixed the maximum amount of annual deposit. The habit of investment has no doubt been stimulated by the opening of such banking department but the number of postal savings banks is too insufficient to produce satisfactory result. The Government has provided for the investment of money in another way, viz., by the issue of cash certificates. The total amount of cash certificates outstanding at the end of 1939-40 was Rs. 57·02 crores.

Lending functions of the Govt.

The discounting function represents the lending operation of the bank. The Government of India has made some arrangement for the granting of Takavi loans to the agriculturists and has been stimulating the growth of Co-operative Credit Societies with a view to liberating the agriculturists from the usurer's yoke. This activity

of the Government can properly represent the lending operation of the Government. Until the establishment of the Reserve Bank the Government had the monopoly of note issue.

The Government thus performs the functions which are ordinarily performed by the bank. It is therefore a great banker.

This banking function of the Government is to be encouraged in view of the slow growth of joint-stock banking in India. This can be done by (*a*) multiplying the number of savings banks, (*b*) raising the rate of interest and the maximum of deposit and (*c*) accepting deposit in cheques and allowing withdrawal by cheques.

Sec. 13. The Exchange Bank.

The Exchange Banks are banks that are mainly dealers in foreign exchange. These banks have generally their head offices in foreign countries and exist mainly for financing the export and import trade of India. At present there are 20 exchange banks in India with a paid-up capital of £128,686 in 1940. And of those the following banks are important :—(1) The Chartered Bank of India, Ltd. (2) The Mercantile Bank of India, Ltd. (3) The Lloyd's Bank, Ltd. (4) The Eastern Bank, Ltd. (5) The Hongkong and Shanghai Banking Corporation.

The business of these banks may be divided into two classes :—(1) The Exchange business and (2) The Ordinary business. *The export bills are of two kinds* :—The D. A. bills and the D. P. bills are generally drawn at three months sight. The Exchange Banks purchase these Bills. The D P. (documents on payment) bills are retained by the London Offices of the banks until they are paid at maturity. The D. A. (documents on acceptance) bills are generally discounted or re-discounted immediately after acceptance. The Exchange Banks also finance the import trade, either by discounting the sixty days sight D. P. bills drawn on Indian importers or by accepting the House Paper of the European importing firms which have London Houses of standing. By purchasing the export bills they effect a transfer of their funds from India to London and by making advances against import bills they transfer funds from London to India ; but as the import trade of India is not as large as the export trade, funds are to be transferred from London to India by buying rupee paper in London and selling the same in India and finally by import of gold bars and coins. The system of re-discounting bills of exchange has lost much of its importance in view of the present practice of the Government purchase of sterling in open market. The exchange banks have not to wait till the bills of exchange have been re-disconted by a London

bank but can get cash by selling their bills to the Government. The importance of the Exchange Bank on the foreign trade of India can never be exaggerated. An Indian exporter is not to wait for three months for the realisation of the price of the articles he has exported but can get his money by selling his bill of exchange to an Exchange Bank doing business in India.

The Exchange Banks also participate in the ordinary banking transactions of India. The shareholders of these banks are generally foreigners but their funds are augmented by means of deposits made by the Indians with them. They have branches in different parts of India and finance the internal trade of the country to a considerable extent. In this way they compete with the ordinary joint-stock banks of India.

The Exchange Banks have been benefited by the establishment of the Reserve Bank of India inasmuch as it offers facilities for the re-disconting of external bills of exchange. But this advantage will be taken recourse to by the exchange banks only when the Central Bank rate of re-discounting is lower than the discount rate in London. If the rate of discount is lower in London the exchange Banks will certainly send the bills of exchange discounted by them to London and sell them in London market.

The supreme position which the foreign banks occupy on account of the large amount of capital at their disposal has evoked serious criticism. It has been argued that the Indian banking institutions cannot freely compete with the foreign banks which are usurping some of the functions of joint-stock banks. The Exchange banks have not to conform to the regulations imposed upon Indian banks. They generally maintain lower percentage of cash reserves against their liabilities. They refuse accomodation to the Indian banking concerns while they themselves accept call loans from the Indian joint-stock banks. The Reserve Banks has little control over the Exchange Banks and cannot for that reason effect unification of the money-market. Again, the foreign banks are found to accord more sympathetic treatment to their own nationals and this accounts for the preponderance of non-Indian elements in the foreign trade of India. The Indian banks are not in a position to finance foreign trade because they have no command over a large stock of capital which is required for the purpose. The initial cost of establishing branches in foreign countries is often too heavy for Indian concerns. The difficulty of securing import and export bills and the want of trained staff in the Head Office and the foreign branches to tackle the questions of international money market stand in the way of success of any Indian

Bank which may choose to undertake financing of foreign trade. The result is that the foreign concerns have got a monopoly over this important field of finance. Various suggestions have been submitted to the Central Banking Enquiry Committee for regulating the affairs of the exchange banks and controlling their anti-Indian policy. The Central Banking Enquiry Committee have recommended the system of granting licenses by a prescribed authority. The Reserve Bank will, as the committee suggested be the suitable authority for undertaking the responsibility of scrutinizing the applications filled by non-Indian banks and for granting licenses in approved cases. The minority report suggests further restrictions by confining their functions to port areas and by taking away their privilege of receiving deposits from Indians. In a minute of dissent signed by six members of the committee the necessity of an immediate establishment of State Exchange Bank has been emphasized but the majority do not agree to this proposal on the ground that the Government will fail to provide capital for the Reserve Bank, if their funds are already deposited with the proposed State Exchange Bank. The Central Banking Committee also recommended the ultimate establishment of an Indian exchange bank if the Imperial Bank of India failed within the stipulated period to participate actively in the financing of India's foreign trade under the inducement of the Reserve Bank of India. Dr. B. Ramchandra Rao emphasized the establishment of an Indian Overseas Bank constituted with capital subscribed by the Indian Joint-stock Banks and the Indian public. This bank will actively finance the foreign trade, develop the drawing of rupee import bills and conduct business on approved lines.

Recommendations of the Central Banking Enquiry Committee.

Sec. 14. The Joint-Stock Banks : their Functions.

The various functions of joint-stock banks.

Next in importance to Exchange Banks are the Joint-Stock Banks. These are banks that are engaged in financing the internal trade of the country. There are various other functions which are performed by such banks. They foster the habit of investment by giving an opportunity to the Indians to keep their deposits with them. With a view to increasing the deposit they will sometimes pay interest on current deposit and higher interest on fixed deposit. The fund so accumulated is utilised by them in discounting internal bills of exchange. They will sometimes favour their customers with an overdraft when they are urgently in need of money for business purposes. They undertake the task of purchasing and selling securities

on behalf of their customers. They facilitate the transfer of funds from one part of India to another part.

The Balance Sheet of a Joint-Stock Bank will give the students some idea of the nature of its transaction.

Liabilities	Rs.	*Assets*		Rs.
1. Shares capital		(1) Reserve		
(a) authorised ...	1,00,00,000	(a) Cash in hand	51,07,418	
(b) subscribed ...	80,00,000	(b) Cash at bankers and loans at call and short notice	32,15,469	
2. Capital paid up ...	40,00,000	(c) Government and other securities at or under market rate)	72,45,153.	1,55,68,040
3. Reserve fund ...	18,00,000	(2) Bills discounted and purchased		1,63,40,511
4. Deposit on current account ...	2.47,14,788	(3) Loans and advances		1,83,21,446
5. Fixed Deposit ...	1,34,23,561	(4) Bills receivable liability of customers for bank acceptances ...		2,41,583
6. Bills payable ...	89,414	(5) Bank premises and furniture ...		1,71.841
7. Bills payable as per contra on account of customer's acceptance	2,41,583			5,06,43,061
8. Profits and loss account brought forward from last year 432142				
Add profit of 1919, 1141173				
15,73,715				
1 ,73,715				
Deduct interim Dividend at 10 per cent. paid for half year 200000	13,73,715			
	5,06,43,061			

Sec. 15. The Growth of Joint-stock Banking.

Agency houses performed banking transaction.

The economic prosperity of India is intimately connected with the development of Joint-Stock Banking; but the number of such banks is too insufficient to meet the demands for credit in a vast country like India. Formerly, the banking transactions were carried on by agency houses. Afterwards the three presidency banks came into existence and contributed to the development of banking system of the country to a considerable extent. There has been considerable development in joint-stock banking in recent

years. In 1906 several joint-stock banks were established of which the Bengal National Bank and the Bank of India were important. These Banks acquired prominence within a short time because the Swadeshi movement increased the number of supporters. During the Great War there was a remarkable increase in the bank deposit and cash reserves. This was due to the huge profit which certain industries earned during that time and the credit which the banks gave to the Government by subscribing to the war loans and treasury bills. In 1940 there were as many as 58 joint-stock banks in India each having paid-up capital and reserve of over Rs. 5 lakhs as compared with 25 banks in 1923. The number of banks with paid-up capital and reserve less than Rs. 5 lakhs was 643 in 1940. It is to be noted in this connection that though the number of banks registered as such under the Indian Companies Act is large yet the number of firms which really carry on banking transaction is very small. The aggregate amount of paid-up capital of these banking institutions does not exceed Rs. 18·66 crores. There are five big joint-stock banks. The most important of the banks is the Central Bank of India, Ltd., which is a purely Indian concern. The other important banks are the Bank of India, Punjab National Bank, Allahabad Bank and the Bank of Baroda.

Sec. 16. The Bank Faliures : How to Check them ?

India has the misfortune of witnessing failure of many banks. The failure has been mainly due to the unsound management of banking business. Often we find that managers of Indian banks have little or no experience in business which they are to control. The fraudulent dealing and misappropriation on the part of the directors have sometimes brought about the failure of banks. The directors sometimes misrepresent their balance sheet and declare high dividends to attract customers. This unwise policy of the directors has sometimes been responsible for the liquidation of many banks. Again, the failure of one bank often precipitates the fall of another bank because of the loss of public confidence. An experienced bank-manager will never advance large part of its capital to one company, because if that company becomes insolvent the entire money so advanced is lost. The inefficient managers of Indian Banks do not often care to follow this important principle and the result is the failure of the banks which have been placed under their charge. We all know that the failure of the Alliance Bank of Simla was due to the enormous advances that were made to a particular company, Messrs. Boulton Brothers of London. Again, sometimes failure of banks has been due to the keeping of

Causes of Bank failure.

Some important Bank failures.

insufficient reserves against their liabilities. In India many banks failed, because they did not keep sufficient reserve against their liability. The banks are also found to lend large sums of money on real estate and intangible and immobile security. Sometimes the bank failure is the result of combining banking functions with non-banking functions. The important banks that failed in India were—(1) The Peoples Bank (in the Punjab), (2) The Specie Bank, (3) The Bank of Upper India. In 1914, 43 banks had to suspend their banking operations. In 1919-20 the number of banks that failed was 7 and in 1923 there were as many as 20 bank failures. Between 1913—24 India had the sad experience of 161 bank failures. In 1935 there were as many as 51 cases of bank failures. As a remedy against the constant failure of banking institutions what we can suggest is the establishment of a Central Bank which will have a general control over the banking organisation and at the same time will render assistance to the banks that are in a precarious position. Several other suggestions that have been made in this connection may be briefly stated thus :—(a) Regular publication of bank's accounts. (b) Restriction as to the amount of loan to be made to a particular individual or company. (c) Prohibition of loans to the directors or other employees of the Bank. (d) Examination of bank's account by the independent auditors. (e) Formation of vigilant supervisory committees.

Recommendations.

The Central Banking Enquiry Committee recommended the passing of a special Bank Act embodying the provisions of Indian Companies Act with certain modifications as well as additional provisions concerning the following matters :—(i) organisation, (ii) management, (iii) audit and inspection and (iv) liquidation and amalgamation. But mere legislation cannot improve the banking system. Steps should be taken to spread banking knowledge and information. The Indian Institute of bankers has made provision for the study of the theory of banking and for the spread of information relating to banking, but this does not help the growth of really capable bank managers well-versed in advanced problems of international banking, currency and exchange. This latter end can be achieved only by deputing capable officers to go abroad to learn the secrets of banking from western countries.

Sec. 16(a). Special Laws in Regulation of Banking Companies.

Amending Act of 1936.

The joint-stock banks are like other companies governed by the Indian Companies Act, 1913 as amended by the Amending Act of 1936. The latter Act was passed with a view to incorporating certain provisions in the light of the recommendations of the Central Banking Enquiry Committee.

This amending Act strictly restricts the business of the banks to ordinary banking transactions and insists upon a minimum working capital of Rs. 50,000, the creation of Reserve Fund equivalent to the paid-up capital by compulsory transfer out of the annual profits of a sum not less than 20 per cent of such profits to the Reserve Fund and the maintenance of a minimum cash reserve of $1\frac{1}{2}$ per cent of the time liabilities and 5 per cent of the demand liabilities. The Act also prohibits the appointment of managing agents for the management of banking companies in future. Provision has also been made in the said Act for authorising the Court to stay proceedings against a banking company with a view to saving it from liquidation. The Act recognises a special class of banks known as the Scheduled Banks and exempts them from certain liabilities under the Act. These Scheduled Banks enjoy certain privileges and are ensured of the protection of the Reserve Bank with which each such Bank has to maintain a balance amounting to at least 5 per cent of its demand liabilities and 2 per cent of its time liabilities. The number of Scheduled Banks rose to 76 in 1943-44.

The total demand and time liabilities of the Scheduled Banks stood at Rs. 549·23 crores on the 25th June, 1943 and the average balances maintained by the Scheduled banks with the Reserve Bank rose from Rs. 41·98 crores in 1941-42 to Rs. 55·82 crores in 1942-43.

The phenomenal and indiscriminate growth of banking institutions during the war has emphasized the necessity of stringent regulation of banking operations. The Board of Directors of the Reserve Bank rightly apprehended the evils that come out of indiscriminate growth of banking companies and recommended certain amendments to the Companies Act. Accordingly the Indian Companies Amending Act, 1944 was passed containing the following important provisions :—

(i) The subscribed capital must not be less than half of the authorised capital and the paid-up capital must not be less than half of the subscribed capital.

(ii) Capital after the commencement of the Act must be raised by the issue of ordinary shares only.

(iii) The right of shareholders to vote will depend upon their contribution to the paid-up capital.

The operation of the above provisions was postponed for two years after the commencement of the Act. For this reason a new bill was introduced in 1945 with a view to consolidating and amending the banking laws in the light of recommendation of the Board of Directors of the Reserve Bank. The Bill defines banking business as the business

of accepting deposits repayable on demand and a banking company as one carrying on banking business and liable to be wound up by the Indian Companies Act, 1913.

The Bill makes provision for the licensing of foreign banks and insists on certain minimum deposits to be kept by them with the Reserve Bank of India. The Banks incorporated in United Kingdom are not to be treated as foreign banks and will enjoy the same privilege as those registered in British India. The Banks must not engage managing agents having share in the profits of the company. A basic minimum has been prescribed for paid-up capital and reserve of a bank with reference to the place of business and the population of the area in which it is located. Provision has also been made for raising the reserve fund by depositing one-fifth of the declared profit until the said fund becomes equal to the paid-up capital. Every bank will also have to maintain cash-reserves which will cover $1\frac{1}{2}$ per cent of its time liabilities and 5 per cent of its demand liabilities. Participation in the trade or undertaking any trade risk has been strictly prohibited. In the same way every bank will be debarred from making advances to its own directors. An attempt has also been made for bringing all banks under the control of the Reserve Bank by authorising the latter when so directed by the Central Government to inspect the accounts of any banking concern.

Sec. 16(b). Difficulties of Indian Joint-Stock Banks: How to Remove them.

The growth of commercial banking in India when compared with the development of banking institutions in other civilized countries presents a very gloomy picture. Let us now have a brief account of the difficulties which stand in the way of progress of joint-stock banking in India.

(i) The participation of Exchange banks in the matter of financing internal trade restricts the sphere of activity of the joint-stock banks. This unhealthy competition has been severely criticised by Mr. N. R. Sarkar and should be removed by confining the activities of exchange banks to Port towns and restricting their right to attract deposit from the Indians.

(ii) The indifference of the Public and of the Government is in a way responsible for the present state of things. The Government keeps its balances with the Imperial Bank of India or the Reserve Bank of India and is not ready to leave any part of its balances with the joint-stock banks. The people of India have little confidence in these banking institutions and prefer to keep their deposits with the

Government or with the Imperial Bank of India even though the latter offer a nominal rate of interest.

(iii) Again, want of honest business dealings and the absence of bank acceptances are other obstacles which go to restrict the activities of joint-stock banks. Again, major businesses are financed mainly by foreigners who will scarcely have an account with Indian joint-stock banks.

(iv) The Imperial Bank of India which had been at the helm of banking organisation in India until the establishment of Reserve Bank did neither help the Indian concerns in times of distress nor favour them with re-discount facilities.

(v) The Indian Joint-Stock Banks have no Association of their own and cannot follow a concerted policy which will enable them to survive in these days of competition. Each bank chooses an independent line of action and does not care for the well-being of other banks.

(vi) The peculiar laws of succession which recognise a large number of heirs complicate the problem of transfer of immovable property and make the banks reluctant to advance money against immovable property.

(vii) The Postal Savings Banks also compete with the joint-stock banks in attracting deposits and the standing offer for the sale of cash certificates often tempts the depositors to prefer investment in such certificates to the detriment of accumulation of deposits with the joint-stock banks.

Let us now turn to discuss the remedies which the Central Banking Enquiry Committee have suggested for improving the position of Indian joint-stock banking. These are :—

(i) The Government should come forward and favour the Indian Joint-Stock Banks with free remittance facilities and exemption from stamp duties and Registration fees.

(ii) The unhealthy competition between the Exchange Banks and the Joint-Stock Banks should be removed by restricting the functions of Exchange Banks and defining the spheres of their activity.

(iii) The newly created Reserve Bank should enable the banks to replenish their Reserve by offering re-discount facilities and render financial assistance by keeping certain funds with them. The scheduled banks have already been brought under the efficient control of the Reserve Bank. They have got to maintain with the Reserve

Bank a balance the amount of which shall not be less than 5 per cent of the demand liabilities in India at the close of the business on any day. They are to submit a weekly return showing the position of cash and liabilities. In return these banks are entitled to receive assistance and advice from the Reserve Bank. The non-scheduled banks have no such statutory obligation but by the amendment of the Companies Act in 1938 the Reserve Bank has been empowered to develop its relation with non-scheduled banks. Accordingly a circular was issued by the Reserve Bank to the non-scheduled banks with a paid-up capital of Rs. 50,000 or over in order to inform them that the Bank was ready to favour them with advice and guidance provided they kept the Bank informed of their operations. Such a close relation with the Reserve Bank will surely strengthen the position of non-scheduled banks.

(iv) The laws of succession should be remodelled and simplified so as to enable the banks to ascertain the number of persons interested in any property which is offered as security.

(v) The joint-stock banks should gain popularity by introducing efficient management and regulate their policy with reference to requirements of time. Number of branches should be increased with a view to affording banking facilities to the business-men in the interior village.

Sec. 17. The Industrial Banking: the Function of an Industrial Bank.

What Banks can finance industries.

One of the causes of backwardness of Indian industries is the want of sufficient amount of capital. The ordinary joint-stock banks cannot afford to finance the industries of India because their capital is mainly derived from deposits which can be withdrawn by the depositors whenever they like. This leads to the necessity of a separate kind of banking organisation. The main business of such banks will be to finance the industries of the country. They should help the industrial companies in securing requisite capital by selling share and by issuing debentures. They should furnish the companies with expert advice on financial matters and should be always willing to carry out all types of financing business. The managers of such banks should be experts in industries because unless they are experienced men of business they will not be in a position to invest the bank's capital in a prudent manner. The industrial success of European countries has been promoted by the existence of industrial banks. In India the industrial banking is almost unknown. The only industrial bank that is carrying on considerable business is the

Mysore Industrial Bank. The Tata Industrial Bank which was established with the object of financing industries could not work successfully for a long time. It had to discontinue its function of financing industries and became ultimately amalgamated with the Central Bank of India. The Indian industries have practically no industrial bank to provide them with the requisite amount of fund. The present system of financing through managing agency has utterly failed to do the needful owing to the lack of resources, industrial skill and proper judgment. The Industrial Commission emphasised the importance of industrial banking and recommended the establishment of industrial banks with large share capital and long-term deposits.

The Commission also recommended that the Government should appoint an expert Committee to deal with the subject of industrial banking. In the meantime an obligation was thrown upon the Government to make provision for financing the middle-class industrialists by guaranteeing the repayment of money lent out to them by the banks.

Sec. 18. How to Develop Industrial Banking.

Industrial banking in Germany.

A new type of bank should be created in India in order to foster the growth of industries. Such a bank will have to invest money in industries and must for that reason accumulate large amount of capital. The capital of the bank may be augmented by the deposits but the bank should always take care to keep long-term deposits because the investment in industries means the locking up of capital for a long period of time. Although the task of financing the industries should fall upon these newly-created industrial banks the ordinary commercial banks can render immense service to the industries by following the German model. In Germany the commercial banks provide the greater part of capital required in industries by joining together in Konsortium and pledging themselves to accept some portion of their shares. The Government of the country should not remain quite indifferent but help the development of such banks by contributing certain amount of funds to them. Provincial industrial corporations should be established with capital supplied by the provincial governments. The public should be induced to purchase their shares. The share capital should be supplemented by debenture capital and purchase of these debentures may be encouraged by guaranteeing a minimum interest. The management of such banks should be left in the hands of industrial experts so that the capital of the banks may be properly utilised in financing those industries which

are on a sound footing. The managers should always study carefully the conditions of an industry before they agree to finance the same. Again, care should be taken so as not to lock up a large part of their capital in one particular industry because, if that industry fails, the entire money invested in it will be lost. The provincial corporations should combine into Central Association and steps should be taken to form an All-India Industrial Corporation. Such an All-India institution will cast upon the central government a duty of developing the industries of national importance and go a great way in establishing wholesome relations between the industries and the departments of the Central Government. The policy of the Central Government in regard to the fixing of railway rates and the imposition of tariff and the purchase of shares will come to be regulated in response to requirements of industries.

The industrial banks should be properly represented on the directorate of concerns which they undertake to finance. They should carefully study the conditions of industries before granting loans. When they are satisfied as to the condition of an industry they can help its development in the following ways :—(i) granting loans ; (ii) guaranteeing the debentures issued by industrial firms ; (iii) underwriting a part or whole of share capital. When the initial capital has been thus raised, working capital can be easily secured by discounting the short-term bills and lending on stocks of goods properly warehoused. These can be safely done by the commercial banks.

Legislations for providing credit facilities to infant industries should be passed on the lines of Madras State Aid to Industries Act.

It is gratifying to learn that the Provincial Legislature of the United Provinces has already approved the scheme of floating a credit company with subscribed capital of Rs. 30 lakhs and paid-up capital of Rs. 15 lakhs. The Company is to be managed by a Board of Directors some of whom would be nominated by the Government. The Government has undertaken to assist the company by guaranteeing dividend on paid-up capital and interest on debentures as well as by subsidizing the cost of management.

The other provinces will do well to follow the model set up by the United Provinces.

The industrial banks may also be started on the Swedish model according to which the banks concerned may lend accommodation to industrial concerns against mortgages of real estates of the industrial concerns.

Sec. 18(a) The Stock-Exchanges.

The Stock-Exchanges help greatly in the matter of market-ability in the shares of industrial concerns; but their attempt is mainly concentrated to the sale and purchase of shares of well-established concerns. The two well-known Stock Exchanges—The Calcutta Stock Exchanges and the Bombay Stock Exchanges have already made marked efforts in this direction; but new enterprises seldom get their services. It gives us great pleasure to learn that the Stock-Exchange Association of Bengal has been dealing in the Shares of many new concerns.

Sec. 19. The Co-operative Banking.

Functions performed by co-operative banking organisation.

The Co-operative banking organisation owes its origin to the Co-operative Credit Societies Act which was passed in 1904. Within a short time it was found that the provisions of the Act could not fully meet the growing demand for co-operative credit. Hence the Act of 1904 was followed by the Act of 1912. The latter Act provided for the formation of Central Banks by means of Union of Primary Societies. These Banks should exist for performing the following functions—(*a*) attracting deposits from money-lenders and professional classes, (*b*) lending money to the primary societies, (*c*) taking away the excess fund of a society and utilising it for making up the deficiency of others, (*d*) supervising and guiding the actions of affiliated societies. The Government has stimulated the development of co-operative banking in four ways—(1) by granting initial advances to new societies, (2) by conferring upon the members certain privileges, (3) by making special advances to meet financial difficulties of such banks and (4) by guaranteeing the interest on debentures. The Central Banks have been financing the primary societies successfully. The number of such banks is increasing every year. In 1936 there were as many as 615 Central Banks. In 1935-36 the working capital of these banks amounted to Rs. 29·4 crores. The working capital is derived from the following sources—(*a*) share capital, (*b*) reserve, (*c*) deposits and (*d*) loans.

Provincial banks and their utility.

The Maclagan Committee recommended the creation of a co-operative institution at the head of each province. Such an institution has been established almost in every province and is technically termed as Provincial Bank. There are 11 such banks in India. These banks depend for their working capital mainly upon the deposits from the affiliated co-operative societies as also from the public.

These banks are helping the progress of co-operative societies by providing them with funds through the intervention of Central Banks. They occupy the premier position in the co-operative banking system and direct the policy to be followed by the Central Banks in financing the primary societies. The Central Banks cannot be expected to use their capital economically and efficiently unless they are controlled by a Provincial Bank.

Project of creating an All-India institution.

The existence of such a Provincial Bank is but a step to the All-India organisation of co-operative societies. The creation of an All-India institution will be conducive to the interest of the country inasmuch as it will facilitate the adjustment of capital through the medium of the Provincial Bank. A Provincial Bank having a stock of surplus capital will be in a position to deposit the same in that All-India institution and the latter will utilise the fund so deposited in making up the deficiency of other Provincial Banks. The proposal for an All-India organisation does not now receive support in view of the fact that co-operation is now a provincial subject and that the establishment of such an apex bank will interfere with the liberty of the Provincial Banks. The Reserve Bank of India will, as the Central Banking Enquiry Committee tells us, do away with the necessity of such an All-India institution. The said bank has been empowered to start an agricultural department which will co-ordinate the operation of the bank in connection with agricultural credit and its relation with the provincial co-operative bank and any other bank. The utility of an international co-operative bank was fully discussed in the International Conference that met at Stockholm in 1927.

Remarks of Mr. J. Coatman.

Mr. J. Coatman, Director of Public Information makes the following remarks in connection with the development of co-operative banking in India: "On the purely credit side, the working of the year (1926-27) fully proved that the development of co-operative banking and the linking up of the financing of agriculture with that of trade and commerce will be of incalculable benefit to the country, as it will undoubtedly save much of the waste attendant upon the use of cash. Considerable advance was made during the year in getting co-operative banks to recognise the need for distinguishing between short-term and long-term loans, a distinction which corresponds to a real distinction in the need of members. By maintaining an effective watch over the proper use of loans and their repayment and by helping to keep a major portion of the assets of the societies in a fluid state, this distinction will undoubtedly assist the movement to come into closer touch

with the money market. The need for land mortgage banks for the redemption of old debts is now being felt and a move in this direction is being made by the establishment of a bank in the Rajshahi district."

Sec. 20. Land Mortgage Banks.

Utility of Land Mortgage Banks.

The Co-operative Credit Societies have rendered immense services to the agriculturists by providing them with short-term loans on a reasonably lower rate of interest. But these societies cannot provide for long-term loans which may be required for the payment of their long-standing debts and for investment in land and scientific appliances. This points to the necessity of a separate set of institutions like the Land Mortgage Banks which can afford to provide the agriculturists with long-term loans. The opinions differ as to the constitution and organisation of these Land Mortgage Banks. The Royal Commission on Agriculture recommended the creation of a set of co-operative banks similar in organisation to the Prussian Farm Mortgage Credit Corporations. The Land Mortgage Banks of India do not come under the category of such Banks. They are quasi-co-operative in character having a mixed membership of borrowers and non-borowers and formed with share capital and on a limited liability basis. At present there are 10 co-operative Land Mortgage Banks in the Punjab. Among other provinces Bengal has 5, Bombay has 17, Assam has 5, and Mrdras has 19 Primary Land Mortgage Banks and one Central Land Mortgage Bank. These banks usually advance money for the redemption of old debts and improvement of land and method of cultivation. Attempts are however being made for the establishment of Land Mortgage Banks on co-operative principle. The Central Banking Enquiry Committee recommended the creation of two kinds of such banks, viz., (i) Land Mortgage Banks based on co-operative principle for the small agriculturist and (ii) Banks based on commercial principles for the benefit of landlords.

Central Banking Enquiry Committee.

The purposes of the loan.

The Land Mortgage Banks of the first type should derive their capital from shares and debentures. The debentures should be issued by a Central institution, called the Provincial Land Mortgage Corporation and the interest on these debentures should be guaranteed by the Government. The Government should also subscribe to the initial capital of these banks. The banks should insist on the capacity and business habit of the directorate so as to promote judicious extension

of credit after careful investigation of title deeds and accurate estimate of borrower's credit and repaying capacity. The banks should lend out money to the agriculturists for certain specified purposes, viz., (i) the liquidation of old debt, (ii) redemption of land and houses of the peasants, (iii) the improvement of land and methods of production. A maximum period should be fixed for the repaymemt of loans and a system of equated payment should be adopted. The banks should be given the privilege of enforcing their claim without taking recourse to Civil Courts.

The second type of banks is intended for the benefit of landlords. These banks should be formed on the line of the English Mortgage Credit Corporation and their capital should be derived by selling shares and issuing debentures. Dawson's Bank in Burma is a solitary instance of such bank.

The formation of Land Mortgage Banks can be encouraged if the Government comes forward and confers on them special fiscal and judicial privileges about execution and foreclosure, exemption from stamp duties, registration fees, and income tax.

Sec. 20(a). The Working of the Land Mortgage Banks: Limitations on their Activity: the Duty of the Government.

The importance of Land Mortgage Banks on the agricultural economy of rural India cannot be ignored in view of the fact that the Co-operative Credit Societies have signally failed to provide the agriculturists with long-term loans which may be badly needed for the redemption of old debts and for any permanent investment in agriculture. The organisation of such banks on quasi-co-operative basis has been of recent growth. The lead in this matter was taken by the Punjab as early as 1920 at Jhang. Several Land Mortgage Banks were established in the Punjab and the success they attained there led to the establishment of simliar organisations in Madras, Bengal, United Provinces, Assam and Bombay. Bengal could not make a headway in the organisation of such banking institutions owing to difference among co-sharers to execute mortgage bonds jointly.

Land Mortgage Banks in Madras.

In Bombay and Madras these institutions have attained considerable success. In Madras the first scheme was launched in the year 1924-25 and since then the number of primary Land Mortgage Banks increased gradually till the year 1940 when there were as many as 119 primary institutions affiliated to the Central Land Mortgage Bank. This latter institution which has in the directorate eminent men can

easily float debentures at the low rate of 3 per cent. The success of these banks is partly due to the encouragement which they have received from the Provincial Government by way of (i) guarantee for interest payable on debentures and (ii) subsidy of Rs. 25,000 towards working expenses and partly to the sound banking policy of the institutions. In Bombay the first experiment in this behalf was financed by the Bombay Provincial Co-operative Bank which set up a separate Land Mortgage Department for this purpose. This experiment could not produce satisfactory result and the Bombay Land Mortgage Committee was set up to examine the position. In pursuance of the recommendation of this Committee the Bombay Provincial Co-operative Land Mortgage Bank was started in December, 1935 and a number of new primary banks were affiliated to this central institution. Like Central Land Mortgage Bank of Madras this central agency has been issuing debentures at an interest of $3\frac{1}{4}$ per cent on a statutory guarantee of the Government for the principal and interest of debentures upto Rs. 50 lakhs. To stimulate the growth of such banking institutions the Government of Bombay has also agreed to give concessions in respect of remission of stamp duty, registration fee, income-tax on profits and to grant for three years an annual subsidy upon a maximum of Rs. 10,000 in the first year, falling to Rs. 6,000 in the third year. The extension of these banking facilities to other provinces which are still backward is an onerous task which can scarcely be undertaken by private initiative unaided by Government efforts. If the Provincial Governments concerned follow the Governments of Bombay and Madras in aiding the growths of these institutions in their territories substantial progress can be achieved in this line.

The Land Mortgage Banks should proceed cautiously in the fulfilment of their objects. They should bear in mind that they can advance money only against sound securities. They must not stand for transferring the entire burden of debt to themselves but attempt to afford relief only to those debtors who have sound security to offer and agree to liquidate their debts by easy instalments. They should at the same time advance money for making permanent improvement on land and introducing better methods of cultivation with a view to improving the economic position of the borrower. The Land Mortgage Banks should develop a wholesome relation with the Agricultural Department in order that better results may follow. The Debt Conciliation Board may throw upon the Land Mortgage Bank the responsibility of repaying the settled debt in consideration of the debtor's agreement to pay the same by easy instalment.

Sec. 21. Co-operative Grain Banks.

Dharmagolas or Grain Banks.

The Co-operative Credit Societies have been rendering yeoman's services to the peasant community by making provisions for credit But cheap credit often encourages extravagance and cannot give the agriculturists every relief that they may require. Sometimes it is found that agricultural distress is due to the scarcity of crops or seed grains. The economists tell us that money is the best store of value but an agriculturist who lives in a remote village and keenly feels the want of seed grains during the agricultural season will get no benefit from the little stock of money that he may happen to possess. As a remedy for these unforseen calamities suggestions have been made for the establishment of Dharmagolas or Grain Banks. These banks will give the agriculturists immense opportunities of preserving certain portion of the crops in times of plenty and of withdrawing the same during the period of scarcity. They will serve as a store of grain where the agriculturists can deposit their surplus crops. The crops thus accumulated will be lent out to those who are in need of them at a lower rate of interest payable in terms of crops during the good harvest year. This repayment in terms of crops is advantageous inasmuch as the agriculturists will not have to incur the loss which a fall in price during the year of repayment may lead to. These grain banks will also render invaluable services during years of scarcity and famine when these reserves of grains will be available for saving many human lives.

The chief defect of these organisations lies in the risk of deterioration which follows from the perishable nature of the articles deposited.

Sec. 22. Clearing House.

The system of 'Clearing House' plays an important part in the present day organisation of banking concerns. It is a machinery by which the claims and counter-claims of the member banks are adjusted and the surplus claims are settled by cheques upon or book entries in a premier bank which acts as a settling bank with which all other banks have account. In this way the use of cash for the adjustment of claims is avoided. In India clearing houses have been established in almost all the principal towns, viz., Calcutta, Madras, Bombay, Karachi, Cawnpore, Lahore, Delhi, Simla, Ahmedabad and Colombo. Formerly the Imperial Bank of India served as the Bankers' Bank because almost all other banks kept a certain part of reserves in that bank. Now this position has been taken up by the Reserve Bank of India with which all scheduled banks

Principal Towns.

are under obligations to keep account; in places where the Reserve Bank has no office, the Imperial Bank of India still serves as a settling bank. The settling bank determines the balance due to any bank on a particular date and settles the same by cheques and book entries thus doing away with the necessity of cash in any from. The system of clearing house is a happy sign of the growth of trade and banking and of the increased use of cheques as a medium of exchange.

The Calcutta clearing House which is managed by the Calcutta Clearing Banks' Association allows a bank with a capital of not less than Rs. 10 lakhs and a city office to become a member of the clearing House when the three-fourths of the existing members support its membership. A bank having a capital of not less than Rs. 5 lakhs and a city office may become a sub-member. The clearing house does not render any assistance to the small banks. The non-clearing banks are in great difficulty in settling their claims and counter-claims. To remove this great difficulty Metropolitan Banking Association has come into being.

Greater economy of cash may be effected through the medium of Clearing House if efforts are made to popularise the use of cheques by extension of banking facilities and by introducing Indian vernacular in cheques, pass books and deposit receipts.

Sec. 22(a) Methods of Inland Remittance.

Method of Inland remittances.

The demand for money is not equally keen in all parts of the country at all times. Bombay may be in urgent need of funds for financing the inland trade when Bengal knows not what to do with her surplus funds. This brings into prominence the question of inland remittances. The inland remittances may be effected in the following ways :—(i) transfers through the Reserve Bank and the Imperial Bank, (ii) transfers through the Government Treasuries, (iii) transfer of rupees by rail or road, (iv) remittances through the Post offices, (v) remittances by hundees or cheques.

(i) Transfers through the Reserve Bank and the Imperial Bank :—The Reserve Bank of India effects transfer of funds by issuing and paying telegraphic transfers and Bank Post bills. The Imperial Bank also renders the same service by purchasing demand drafts and paying drafts and telegraphic transfers. The services are not gratuitous but a small commission is charged for this remittance business. The other joint-stock banks are gradually taking part in this remittance business.

(ii) Transfers through Government Treasuries :—The Government renders great assistance by using the funds available at the treasuries to the advantage of the public demanding transfer of funds. The "supply bills" drawn upon other treasuries are sold to the public who send the bills to the place where the treasuries are situated and get cash from the treasuries.

(iii) Transfer by Rail or Road :—To satisfy the demand for silver coins in the rural areas where crops are purchased by the dealers, metallic coins are transferred from one place to another in large quantities. The dealers generally travel by rail and road with liquid cash in their pocket and the British rule in India which has brought security in life and property protects these travellers from robbers and thieves.

(iv) Postal Remittances :—The Post offices render yeoman's services in connection with the remittance of funds from one place to another. In case of transfer of small amounts, remittance by postal money order is the most convenient method.

(v) Transfer by Hundees or cheques :—The internal trade is financed and transfer of funds is effected by the shroffs who generally confine their advances to the discounting of hundees. In times of stringency these shroffs may replenish their stock of money by getting their hundees rediscounted by the Imperial Bank and other banks. The use of cheques is becoming popular day by day. The cheques drawn upon one bank are accepted by other banks and by its branches in other centres. The popularity of the cheques has been enhanced by the machinery of the clearing house which gives facility for the cancellation of cross-claims and the settlement of the final balance by means of cheques drawn upon the Reserve Bank.

Sec. 23. The Position of Indian Banking during the last great war.

The effect of the war on banking.

As a general rule the banks are put to great difficulties whenever the outbreak of war causes nervousness among people and creates stringency in the money-market. Banks do not keep sufficient reserves against their liabilities and can scarcely meet them if all on a sudden the depositors demand payment. During the Great war of 1914-18 the financial position of the banks was at stake by reason of the heavy withdrawal of money by the depositors. Immediately after the outbreak of the last war in September, 1939 there was the sudden rush for withdrawal of money but the situation was quickly brought under control by the Reserve Bank of India which favoured the

scheduled banks with timely accommodation. The depositors, again, began to place their funds at the disposal of the banks and the profit earned by the businuessmen went to augment their deposits with banks. The growth of deposits means corresponding increase in the liabilities of the banks. The balances held by the scheduled banks with the Reserve Bank showed unprecedented devolopment during the war period ; the number of banks. Scheduled and Non-Scheduled also increased and there was a tremendous growth of branch banking.

One redeeming feature of the money market during the war has been the stationary character at the bank rates. The rate of interest has been maintained at 3 per cent. The credit is due to the Reserve Bank which has succeeded in expanding currency in response to demand for the same by issuing notes against huge purchase of sterling and Treasury bills. The position of the reserves of banks has also improved and greater precaution has been taken to keep sufficient reserve against demand and time liabilities.

The growth of banking Companies during the war time is no doubt an index of surplus funds in the money market. The surplus fund has been thrown in the market by the heavy military expenditure of the Government of India and the consequent inflation of currency. When the war-time boom will come to an end the new banking institutions will find darker days ahead. Only those will survive who have built thir Capital structure on a sound footing and have not indulged in speculative investments.

Quetions & Answers

Q. 1. Describe the various types of Banks that exist in India.—The Government of India tself is a great banker.—Comment. (C. U. 1915.)
Ans. *See*—Sec. 12.

Q 2. Describe the Indian banking system. (C. U. 1927.)
Ans. *See*—Secs. 5, 13 and 14.

Q. 3. What is the position of the Provincial Co-operative Banks in the co-operative organisation of India ? It is necessary to create an All-India Institution to finance the provincial Bank ? (C. U. 1928.)
Ans. *See*—Sec. 19.

Q. 4. Explain the position of Exchange Banks in the Import and Export trade of India. How will they be affected by the creation of the Bank ? (C. U. 1923)
Ans. *See*—Sec. 13.

Q 5. How do you account for the undeveloped state of industrial banking in India ? What are the conditions under which the success of the Industrial Banks can be ensured ? Is it possible to create those conditions in India ? (C. U. 1923.)
Ans. *See*—Secs. 17 and 18.

Q. 6. Show that credit is an indispensable factor in modern business.
Ans. *See*—Sec. 1.

Q. 7. Describe the utility of co-operative Grain Banks in Bengal. (C. U. 1924.)
Ans. *See*—Sec. 21 (a)

Q. 8. Give an account of the amalgamation of three Presidency Banks into an Imperial Bank of India.
Ans. *See*—Sec. 5.

Q. 9. Do you say that a Central Bank for India is desirable? In what ways would it be an advantage to India? (C. U. 1929.)
Ans. *See*—Sec. 9.

Q. 10. Discuss the relation that the Government has with the Imperial Bank.
Ans. *See*—Sec. 6.

Q. 11. Trace the history of the amalgamation of the Presidency Banks into the Imperial Bank of India. What do you think have been the advantages of such amalgamation? (C. U. 1930.)
Ans. *See*—Sec. 5.

Q. 12. What should be in your opinion the suitable Constitution for the Reserve Bank of India? What functions should it ordinarily discharge? (C. U. 1934.)
Ans. *See*—Sec. 10 and 10(a).

Q. 13. Describe the main features of the Indian banking system. (C. U. 1933.)
Ans. *See*—Sec. 3.

Q. 14. Account for the absence of banking habit among the people of India. What measures would you suggest to encourage this habit among the mass of the people? (C. U. 1935.)
Ans. *See*—Sec. 1(a).

Q. 15. Describe the present organisation of the Indian Money-market. What part is the Reserve Bank expected to play in this market? (C. U. 1936.)
Ans. *See*—Secs. 2(a), and 2(c).

Q. 16. What are the different types of banks that we have in India? What part do the Exchange banks play in financing our trade? (C. U. 1937.)
Ans. *See*—Secs. 5 and 14.

Q. 17. Give an account of the Reserve Bank of India. What are its relations to the rest of the banking system of this country? (C. U. 1940.)
Ans. *See*—Secs. 10(a), 10(b) and 10(c).

Q. 18. Do you advocate the establishment of industrial banks in India? (C. U. 1940.)
Ans. *See*—Secs. 17 and 18.

Q. 19. Discuss the scope and functions of mortgage banks. Have any land mortgage banks been established in Bengal? (C. U. 1940.)
Ans. *See*—Sec. 20.

Q. 20. State the functions performed by the indigenous banker. By what methods, if any, can he be brought within the organised banking system of the country?
Ans. *See*—Secs. 2(b) and 3(a).

Q. 21. Discuss the scope and functions of Land Mortgage Banks in India. (C. U. 1943.)
Ans. *See*—Sec. 20.

Q. 22. "The two principal tasks of the Reserve Bank of India are to maintain the international value of the rupee and to control the credit situation in India." Discuss the statement. (C. U. 1943.)
Ans. *See*—Sec. 10(*d*).

Q. 23. In what ways was the Reserve Bank of India expected to improve the orgainsation and efficiency of the Indian money market? How far have there expectations been fulfilled. (C. U. 1945.)
Ans. *See*—Sec. 10(*d*)

CHAPTER XVII

PRICES

Sec. 1. India and Rise in Prices in the Past.

Price is influenced both by internal and external causes.

In India prices of commodities have been influenced both by internal and external causes. In these days of international trade the Indian prices cannot but respond ultimately to the rise in world prices. If the price of wheat increases very much in London the price of wheat of India cannot remain unaffected. The exporters will think it profitable to export wheat to London and in consequence the demand for wheat in the Indian market will increase. This increase in the demand for wheat must have its effect upon the price. In this manner rise in world-prices will influence the Indian price level to a considerable extent.

The causes that were responsible for rise in world-prices in the past may be summarized in the following lines :—

(1) The demand for commodities increased very much on account of the rise in the standard of living. The materialistic ideal acquired prominence with the advancement of civilization and simplicity in the matter of dress gave place to pomp and grandeur.

(2) The destruction of commodities caused by wars and the direction of human efforts to unproductive purposes were also important causes of the rise in world-prices.

(3) The increased supply of gold which was used for monetary purposes might be another cause of the rise in prices. If the supply of money materials increases the value of money which indicates its purchasing power will fall with the result that the prices of commodities will rise.

(4) Another important cause of the rise in world-prices was the development of credit system. In western countries the deposit banking system made considerable progress and exchange transactions were carried on through the medium of credit instruments.

The rise in world-prices which had been brought about by the factors mentioned above influenced the Indian price level to a considerable extent. Besides these external causes, there were certain internal causes which were responsible for the rise in Indian

prices in the past. *Let us have a brief summary of these internal causes :—*

(1) The population of India increased faster than the food supply. The supply of foodstuff could not keep pace with the increasing population and the result was a rise in the price of foodstuff. The Malthusian doctrine of population operated vehemently in India and the Law of Diminishing Return manifested itself with the extension of cultivation to inferior land.

(2) The rise in the standard of living necessitated an increased consumption of manufactured goods and India had to export foodgrains in large quantities in exchange for the foreign articles that she imported. The supply of food grains had for this reason fallen greatly and the inevitable consequence of this diminution in the supply of foodstuff was the rise in prices.

(3) Again, the rise in the price of foodstuff was due to the replacement of foodcrops by commercial crops. This change of policy was responsible for a considerable reduction in the output of foodgrains and hastened a rise in prices.

(4) An increase in the export of foodstuffs had sometimes raised their prices.

(5) The rise in prices was sometimes due to the failure of crops. The total output was scarcely sufficient to meet the demand. Hence there was a rise in prices.

(6) The prices of commodities were sometimes raised by the inflation of currency and by the infusion of banking facilities. The Government of India was entrusted with the charge of controlling the currency system of the country and sometimes increased the supply of currency in response to the external volume of trade which did not correctly represent the nature of the entire volume of trade. In this way the Government expanded the currency in circulation although such an expansion was not demanded by the volume of trade. In 1908 Mr. Gokhale emphasized the effect of the expansion of currency on price level in a debate of the Legislative Council. Again, the considerable progress that the defective credit system of India made during the time, contributed to the rise in prices to some extent.

(7) The imposition of protective duties upon certain commodities with the object of protecting the infant industries of the country led to the rise in the price of those commodities.

(8) The modern system of combative advertisement increased the cost of production and thereby caused a rise in prices.

(9) The development of communication had some effect upon the price-level of the country. The demand for the commodity increased as the market was extended and the price of the commodity rose in consequence. Sometimes the development of communication and the lowering of the cost of transport will have the opposite effect. This happens when by virtue of the development of communication, India is linked up with another country which has better advantages in producing certain commodities which India requires in large quantities.

(10) Other minor causes of the rise in prices were the rise of wages, import of capital and dealer's monopolies.

Sec. 2. The effect of Change in Prices on the Economic condition of the people.

Producer will be benefited.

The rise in the prices of commodities affects the different sections of the community in a different manner. The producers will be gainer inasmuch as their articles can be sold at a higher price ; but we should remember in this connection that this high profit can be reaped only so long as the cost of production does not rise proportionately. The cultivators will be benefited by the rise in prices because their articles will be exchanged for a large amount of rupees : but this gain will be a nominal one if the prices of other commodities which the cultivators are to purchase in order that they may keep their body and soul together, rise in the same proportion. Again, the gains of the agriculturists may be intercepted by the middleman who in anticipation of a rise in prices may have contracted for the purchase of the surplus output at a fixed price. The agriculturists will, however, derive much benefit in connection with the repayment of their debts payable in money because the creditors cannot but demand the same amount of rupees with interest. The small land-owners will derive much benefit from the rise of prices because the income from their land will increase while the revenue payable to the Government will remain the same. The raiyats in the raiyatwari system of tenure where settlement of revenue is made directly with them, will derive much benefit because their income will rise in terms of money but they will have to pay the same amount of revenue to the state. But the big zamindars whose income is derived from the rents realised from the tenants and who are not entitled to raise the amount of rent payable by the tenant whenever they like, will be hard hit because their expenses will increase while their income will remain the same.

The capitalist manufacturers will reap the benefit of a rise in price so long as the cost of production does not increase proportionately.

But once the wages have been raised, it will be difficult for them to reduce them, when the price takes a downward course. The handicrafts will be hard hit because the rise in prices will bring into prominence the competition of machine-made goods and encourage importation of cheap goods.

The persons with fixed income will be seriously affected. Thus the employees either in government service or in private service will suffer because their income will not increase in response to the rise in prices. Similarly, the creditors and the holders of government and other securities will be at a disadvantage because their loans and investment will bring a fixed amount of income while their expenses will increase on account of the rising prices. Again the professional men such as lawyers and physicians whose fees do not respond to the rising prices will be the worst sufferers. Their expenses would rise considerably because they have to maintain their comparatively high standard of living but they cannot increase their fees.

The wages of the unskilled labourers will lag behind. The producers can afford to increase their wages but they will not do so because they are selfish men. The employers will enjoy higher income at the expense of the poor labourers. The labourers cannot enjoy the fruits of their own endeavour and their wages cannot be readily adjusted to the rising price-level because there is no such effective organisatisn of labourers which can compel the employers to raise their wages or to make other favourable arrangements for their employment. The trade-union movement is still in its infancy in India. Mr. Dutt, however proved that the wages of the rural labourers rose faster before the war than the retail prices. In such a case the labourers were undoubtedly at an advantage.

Sec. 3. Is Rise in Prices Beneficial to the Country ?

We have studied in the preceding section the effect of the rise in prices upon the economic position of the different sections of people.

Rise in price indicates the economic prosperity of the county.

We shall now discuss its effect upon the economic condition of the country as a whole. Mr. K. L. Dutt is of opinion that the rising prices have contributed greatly to the development of India's resources. The rise in prices has added to the wealth of the country by increasing the profits that can be derived from agriculture and other industries. It has brought special advantage to a debtor country like India inasmuch as it enabled her to discharge her foreign debts by a smaller amount of commodities. The wages that are paid to the labouring classes have also increased considerably.

That the pecuniary condition of the people of India has improved is indicated by the increase in the consumption of foreign articles of luxury. The increase in the importation of and the heavy absorption of precious metals by India bear witness to the fact that people of India can afford to spend money in purchasing those articles which are not at all required for keeping their body and soul together. The prosperity of the country is to be measured by the volume of her production and the extent of her consumption. During the rising prices the volume of production has increased considerably on account of the impetus that has been given to the industries of India. The export trade of the country has expanded and in consequence India has a considerable balance in her favour after paying the value of her imported commodities. This surplus balance in her favour is liquidated by the importation of precious metals in sufficient quantities. From what has been stated above it is clear that according to Mr. Dutt the rise in prices has contributed to the real progess of the country. We cannot, however, endorse the view of Mr. K. L. Dutt in regard to rising price. True it is that India derives certain benefit from the rising prices of her exports but at the same time she has to pay higher prices for her imports. The cost of production also increases along with the increase in demand for articles governed by the Law of Diminishing Return. The rising prices do not, therefore always indicate the prosperity of the country. The consequences of a rise in prices may be positively harmful.

Sec. 4. The Recent Movement : Its effects on Prices

Since 1925-26 there has been a general fall in the level of prices. This fall has not been peculiar to India but we find that other countries of the world are keenly feeling the effects of a fall in prices. This general fall in prices has been brought about by various causes. The world-wide fall is attributed partly to over-production of commodities and partly to inadequacy in the supply of gold for the requirements of the world as a whole. Among the causes peculiar to India we may mention the attempt on the part of the Government to maintain the rate of exchange at 1*s*. 6*d*. The prices of rice, wheat and jute reached the lowest figure. The Calcutta wholesale price index number for September, 1929 was 143 ; it had fallen to 91 by September, 1931—a fall of over 36 per cent ; it rose again to 98 by December, 1932 but by subsequent March it came down to 94. This was merely a reflection of the depreciation of local currency in terms of gold which followed the abandonment of gold standard. The

Causes of the general fall in prices.

declining tendency continued till March, 1933 when it came down to 82. The Calcutta Index Number then began to rise steadily till at the end of July it reached 91, the maximum for 1933-34. The months that followed witnessed a downward tendency and in December, 1933 the Index number stood at 89. The early months of 1934 saw a slight decline and in March, 1934, the Index number came down to 88. During 1934-35 the price-level generally fluctuated within a margin of two points from this level, the changes being more often in the upward direction. In March, 1935 the Index Number stood at 91. The most conspicuous feature of the movement has been the heavier decline of agricultural prices. The fall in prices of commodities has brought misery to the poor agriculturists.

The rent payable to the landlord and the cost of production remain almost unaltered while the agriculturists get fewer rupees in exchange for the products that they turn out. Attempts should be made to improve the conditions of the agriculturists by encouraging production with the up-to-date appliances and by reducing the rent payable to the landlord in cases where such reduction is possible. The fall in prices has also affected the interests of the artisans and industrialists. The manufactured articles can be sold only at a lower price but the cost of production cannot be reduced considerably because the wage-earners are not ready to accept lower rate of wages.

The year 1936 recorded a stationary condition. The year that followed showed an upward tendency and the Index Number stood at 102. In 1938 the Calcutta whole-sale price Index Number fell to 95. Since the out-break of the last war the commodity price took an upward trend and came upto 137 in December, 1939. The following year witnessed a downward movement but this was checked by the end of July, 1940 when the Index Number stood at 114. Since then prices of commodities began to rise gradually till the Index number went upto 236 in September, 1943. The latter figure is based upon the controlled prices. If the actual prices of the commodities are taken into consideration the Index Number will rise higher than the aforesaid figure.

Wholesale Price Index Numbers

Year.	Calcutta.	Bombay.	Karachi.
1926	148	149	140
1927	148	147	137
1928	145	146	137
1929	141	145	133
1930	116	126	108
1931	96	100	99
1932	91	109	99
1933	87	98	97
1934	89	95	96
1935	91	99	99
1936	91	96	102
1937	102	106	103
1938	95	101	104
1939	108	109	108
1940	114	113	112

Sec. 5. Causes of the Rise in Prices during the War time.

An interesting study.

Since the outbreak of the Great War in September, 1939 the prices of commodities began to move upwards. It is interesting to study the causes of the rise in prices. Immediately after the declaration of war there was nervousness among people who began to hoard goods in apprehension of a future rise in prices. This led to speculative rise in prices of commodities for a period of time; from January, 1940 the Index Number of prices began to fall till it reached 114 in July, 1940. This fall was due to the fact that the speculative hoarding ceased and the hoarders began to exhaust their stock in apprehension of a fall in prices. From September, 1940 prices, again, began to rise and this rise was steady except during February, 1942 when we noticed a slight fall on account of the nervousness created by the bad war situation in the East.

This steady rise in prices can be explained with reference to the following factors :—First, there has been substantial inflation of currency. The volume of notes in circulation was Rs. 593·24 crores in January, 1942 as compared with Rs. 178·89 crores in August, 1939. This meant an increase of 233 per cent while the Index of Business Activity did not show a corresponding increase. There was an increase in employment and in military expenditure but this was not sufficient to cover the whole of inflated currency. The Government however attempted to withdraw currency by imposition of additional

taxes and by raising defence loans but the amount so withdrawn was spent in defraying the cost of civil and military administration. The net result was that the supply of currency was greater than what the expansion of business activity would require and at once went to raise the level of prices. Secondly, the prices of foodstuffs have risen partly on account of the shortage of supply due to failure of crops in 1942-43 and partly on account of an increase in military demands. The abnormal rise in certain provinces was due to the inter-provincial restriction, shortage of waggons and imprudent transfer of foodcrops in apprehension of Japanese invasion. Thirdly, the occupation of Burma by Japan stopped the export of foodstuffs from Burma on which India used to depend in normal time for the supply of foodstuffs. Fourthly, there was large export of foodstuffs to Ceylon and to other allied countries. Fifthly, the prices of Kerosene and Cotton goods swelled on account of the diminution in the foreign supply, an increase in the military requirments and an increase in the cost of production.

An abnormal rise in the prices of commodities has not been associated with corresponding increase in the incomes of people and the misery of the people knows no bounds. The Government has attempted to give relief to the people by adopting measures for the control of prices ; but its efforts in this connection have not been crowned with success.

Sec. 6. Price Control.

Control of Profiteering.

The abnormal rise in the prices has been due partly to the inflation of currency and shortage in the supply of goods and partly to the profiteering tendency of the dealers. An immediate step to control profiteering was urgently called for. The Government of India came to respond to the call and authorised the Provincial Governments to fix prices of necessaries under the Defence of India Rules. Accordingly, price controllers were appointed by the different Provincial Governments and the District Magistrates were asked to exercise strict control over prices within their districts by prosecuting persons who sold commodities at prices which were higher than the prescribed rates. The fixing of retail prices lay in the hands of the Provincial Governments while the wholesale prices were fixed by the Central Government. Several conferences were held in Delhi to discuss matters and arrive at a concerted policy of controlling prices. For exercising effective control over prices a system of licensing of wholesale and retail dealers was introduced by Food Grains Control

Order issued in 1942. A Director of civil supplies was appointed to co-ordinate the policy of control of prices. In spite of these efforts of the Government the misery of the people due to overwhelming rise in the prices knows no bounds as the number of controlled shops is scarcely sufficient to meet the demand of people. Great difficulty is now being experienced for mal-adjustment of supply and prices in the black market remains practically uncontrolled.

Sec. 7. The Last War and the Prices of Securities and Shares.

Prices rose to a record.

The Index number of the security prices is the true mirror of business condition and gives us a rough idea of the business psychology. The outbreak of hostilities in the Balkans caused nervousness among people and the prices of stocks showed marked deterioration for a period of time ; The encouraging news from the Middle East and restriction on jobbing business imposed by the Stock Exchange authorities managed to raise the prices of securities and the Index Number of security prices rose to a record level of 152 in November, 1941. The fall of Singapore and the subsequent Japanese advance into Burma lowered the Index down to 120. The Index number would have come down to lower levels but for the manipulation of stock-exchange authorities and the artificial method of maintaining minimum prices.

Questions & Answers

Q. 1. Enumerate the principal causes of the recent rise in prices in India ; which of those causes do you consider to be peculiar to India ? (C. U. 1 16).
Ans. *See*—Sec. 1.

Q. 2. The following are among the causes of the high prices in India ;
(a) Development of communication and lowering of the cost of transport.
(b) Growth of Banking facilities and the Development of credit. Discuss.
Ans. *See*—Sec. 1. (C. U. 1917).

Q. 3. Examine the principal causes for the variation of agricultural prices in India. Do you consider that rising or falling of prices are preferable from the standpoint of general prosperty ? (C. U. 1929).
Ans. *See*—Secs. 1 and 2.

Q. 4. Mention the economic effects of the recent rise in prices in India.
Ans. *See*—Secs. 4 and 5. (C. U. 1921).

CHAPTER XVIII

UNEMPLOYMENT

Sec. 1. The Problem of Unemployment.

How the problem differs in India.

Like all other civilized countries India now finds it difficult to solve the problem of unemployment; but the problem of unemployment in India differs considerably from that in the western countries which have already flourished in the sphere of industry. In western countries unemployment has been generally the result of industrial depression occasioned by the mal-adjustment between production and consumption. We cannot, however, dogmatically assert that in India there has never been such mal-adjustment which brings about depression of trade and industry. What we mean to suggest is that the part played by this factor is not very important in India where industrial revolution has not as yet succeeded in making the population more or less dependent upon the industries. The problem of unemployment has to be studied here with reference to several other factors which are peculiar to India.

India is a country where the population is mainly dependent upon agriculture which can only demand a seasonal employment of labourers. The labourers are thus out of employment when they have no work in the field to do. Again, failure of monsoons which occurs frequently in India leads to cessation of agricultural operations and complicates the problem of unemployment. Another class of labourers who are suffering greatly on account of unemployment is the artisan class.

The industrial revolution has not yet been complete. India is now in a transition and in consequence the artisans who used to carry on production in cottages have been thrown out of employment.

Another section of the community which has been recently faced with the problem of unemployment is the middle-class section which includes people who are literate and depend more or less upon the clerical occupation,

Sec. 2. Causes of Unemployment.

India is a country where agriculture is the principal occupation of the people, but there are other occupations in which people of India

are often employed. People are sometimes employed in industrial and commercial undertakings and in the clerical and other educational services, but these occupations can afford to engage only a limited number of persons. In this section we shall discuss the various causes of unemployment.

(i) Rural unemployment which means unemployment of the agriculturists generally manifests itself when the agricultural season is over. The agriculturists have to remain idle during that time when there is no demand for their services and have to starve if they have not stored enough crops for consumption. The situation becomes aggravated when there is a failure of rains which makes it impossible for the agriculturists to carry on agricultural operations.

(ii) The next important cause of unemployment was the world-wide economic depression which had its worst effect upon the trade and industries of India. The foreigners who used to purchase large quantities of India's raw material reduced their demand for the same and this led to a fall in the price of products and necessitated a diminution in the scale of production. Again, the manufacturers were not in a position to reduce the cost of production and had been forced to suspend their work. The merchants who employed people to help them in their business had either to suspend their business or to dispense with the services of the new officers. The income of the Government was considerably reduced with the result that certain officers were discharged.

(iii) The present system of liberal education is another cause of unemployment. The parents send their boys to schools and colleges where they get training which may help them in passing certain University examinations. The literary occupations and learned professions attract them but when they finish their University courses and come into touch with the stern realities, they find to their surprise that they have been misled. The legal and the medical professions are already overcrowded and the junior members are often found to pass their days in utter disappointment. The expensive training which men of these professions must have, exhausts the stock of capital which they or their fathers possessed and brings them disappointment. The clerical occupations which tempt many applicants have already been overstocked. Another defect of the system of education lies in the fact that it does not inspire a sense of dignity of labour. People who have got only a smattering of education are found to abhor all sorts of manual exertion which their hereditary occupations involve.

(iv) We have already seen the defects of liberal education and accused the parents who send their children to schools and colleges; but if we study the present state of things critically we find that the parents sometimes have no other alternative than to send their boys to get liberal education. India, as it stands today, has only a few avenues of employment. Technical schools are training boys but the industries which have been established in India cannot afford to employ all the trained men. The present problem of unemployment cannot be solved unless steps are taken to foster the economic development of the country.

(v) Certain social causes such as early marriage, social prejudices and joint family system have been responsible for unemployment. Early marriage which throws the responsibility of maintaining family upon people who are too young to bear such responsibility compels them to join any occupation they find and to accept any remuneration which the employers are willing to pay. Social prejudices often stand in the way of adopting some professions which may enable people to earn decent incomes. The joint family system makes some members more or less dependent upon other earning members, encourages idleness and cramps individual initiative and ambition.

(vi) The chief cause of unemployment is want of industrial development. India has immense prospect for success in the sphere of industry but she is still poor in industrial development.

Sec. 3. Suggested Remedies.

The problem of unemployment is a complex one but efforts must be made to solve it. There must be increasing avenues of employment so that people may not die of starvation. This is possible if the economic resources of the country can be worked successfully. New industries should be opened and the difficulties which now impede their progress must be removed. In India there is as yet an immense scope for industrialisation; when this has been achieved there will be many new avenues of employment and the problem of unemployment will find an easy solution. The middle class unemployment may be considerably reduced if the Government takes to the policy of Indianisation of superior services in the civil and the military departments. Again, a revival of the cottage industries and an encouragement to them will also go to reduce the rural unemployment. Greater attention should be given to improvement in agriculture. Agricultural protectionism as initiated for Imperial Germany by Chancellor Von Bulow should be the economic watchward

Utilisation of the economic resources.

in India of the future in order that India can emerge successfully from the present depression and enter hopefully upon a period of continued prosperity and progress. Mere change in the system of education cannot solve the problem. The technical schools will be useless if the trained labourers do not get employment in firms which require their services. Care should also be taken to change the social system and to uproot all those prejudices which hamper the economic development of the country. The Central and the various Provincial Government should not forget their responsibilities in this connection and make combined efforts for solving this intricate problem which stands as a menace to good government.

Employment Bureau.

Certain other suggestions have been made. One such suggestion speaks of the utility of Employment Bureau. We cannot ignore the usefulness of such a bureau in a vast country like India where people do not and cannot know the persons who demand their services. It should be remembered, however, that this cannot create new avenues of employment.

Seasonal unemployment or unemployment during periods of depression may be conveniently fought out if the Government of India follows the policy of other countries and takes up the construction of public works during periods of slump.

Migration to other parts of the world has been suggested as another remedy; but this remedy will be of no avail inasmuch as the problem of unemployment is equally complex in other parts of the world. The distribution of population within the country may serve as palliative but will not be the proper solution of the problem.

Taking to agriculture.

One more suggestion advises the intellectual labourers to take to agriculture. Proposals of 'farm colonies' have been put forward as a solution of the problem of unemployment but these schemes are not founded upon proper enquiry and judgment. We all know the misery of the agricultural labourers particularly in these days of falling prices. Agriculture does not help them to procure the articles that are necessary to keep body and soul together. How can the intellectual proletariat unacquainted with the art and science of agriculture make a decent living out of agriculture? Again, the pressure of population on the available lands is already too heavy and the tenancy laws have already recognised a permanent or semi-permanent right of the cultivators in the soil. How can the holders of University degrees eject those tenants and get *khas* possession of the land? How would they get funds to purchase new lands, if

available? These are intricate questions which demand solutions before the above proposal can be accepted.

Recommendations of Sapru Committee.

The problem of unemployment came under serious discussion when the Sapru Committee was appointed by the Government of the United Provinces. Many important suggestions were made by the said committee in solution of the problem. It is interesting to note here a few of them which every provincial government may easily accept in its campaign against unemployment. One such suggestion relates to an increasing employment of medical men by the Municipalities and District Boards in giving medical relief to the areas under their charge. The Government should also grant subsidies to the medical practitioners in order to encourage them to settle in villages where the need for medical aid is the greatest. As regards unemployment among lawyers the committee suggested a greater specialisation of functions. As regards unemployment of educated youngmen the committee suggested an extension of primary education which must necessarily involve the creation of many primary schools and the employment of new teachers. Another suggestion speaks of the creation of Appointment Boards for University graduates the chief function of which should be to procure employment for the graduates. The reduction of the education qualification and the lowering of the present age limit were emphasized by the committee with a view to checking the swelling number of disappointed graduates whose qualifications were often too high for the subordinate services.

Questions and Answers

Q. 1. Trace the causes of unemployment in India.
Ans. *See*—Secs. 1 and 2.

Q. 2. How would you solve the problem of unemployment in India?
Ans. *See*—Sec. 3.

CHAPTER XIX

PUBLIC FINANCE

Sec. 1. The Sources of Revenue.

Varieties of tax and non-tax revenue.

The sources of revenue of the Government of India may be classified under two principal heads—(1) Taxation, (2) other miscellaneous ways. The first class viz.,—Taxation may be subdivided into as many groups as there are different kinds of taxes levied by the Government. Taxation has been the principal source of revenue and the Government of India has imposed various kinds of taxes partly with a view to increasing the revenue and partly with a view to avoiding the evils that follow from a single tax system. The second class viz., the non-tax sources, include several other sources from which the Government of India derives considerable amount of revenue. These are :—(1) The Public domains, such as lands, forests and mines which are owned by the Government; (2) the commercial undertakings as represented by the Post offices and the State Railways. These bring considerable amount of revenue to the Government every year; (3) the revenues from interest on money lent by the Government and the profit of investment; (4) the incidental earnings of the Government. These are represented by the fees charged and special assessment levied upon persons who have derived some special benefit from the Government; considerable amount of revenue is yielded by the Court-fees that are to be paid by the people desirous of instituting suit in a Court of Justice; (5) public monopolies :—The Government of India has the monopoly in the production of opium and derives large amount of revenue from this source; (6) miscellaneous receipts which include the tributes and the departmental receipts.

Sec. 2. The Different kinds of Taxes.

Direct and indirect taxes.

There are two principal kinds of taxes in India. They are the direct and the indirect taxes. A tax is said to be direct when the tax-payer is also the tax-bearer, in other words when the incidence of taxation falls upon the person who pays it. The income tax and the land revenue are instances of direct tax levied in India. An indirect tax on the other hand means a kind of tax the incidence of which is expected in the eye of law to fall upon a person other than

the person who actually pays it. An excise duty payable by the producer of matches is an instance of indirect tax inasmuch as the burden of this tax will not be borne by the actual payer but will fall upon the consumers. The salt duty gives us another instance of indirect tax. In this case the duty enters into price of the commodity and is ultimately paid by the consumers when they purchase salt. The two kinds of taxes mentioned above have their respective merits and demerits.

Sec. 3. The Peculiar feature of Indian Taxation.

Inequitable system of taxation.

The system of taxation in India has not been based upon an equitable principle. According to this principle taxes should be imposed upon persons with due reference to their ability. This ability is measured by the amount of income. Thus a sound system of taxation requires that the incidence of taxation should be distributed among the tax-payers with reference to their respective incomes. The rich should be compelled to bear a burden of taxation which is much heavier than what is borne by the poor. This sound principle of taxation can possibly be given effect to when there is direct taxation. In India, however, we find that there is too little of direct taxation and there is too much of indirect taxation. Taxes have been levied upon sugar, salt, and cotton goods which even poor people must purchase in order to keep their body and soul together. In India the direct taxes which include income-tax and super-tax contribute only 11·47 per cent of the total revenue. Among indirect taxes, taxes on necessaries of life and means of production alone are productive of revenue which is sufficient to cover as much 29·84 per cent of the total tax revenue. These facts led Prof. Shah to remark that "the richer class pays Rs. 100 crores in revenue while the poorer class pays Rs. 150 crores in terms of wealth deduction." On the review of the condition of customs tariff in India the Taxation Enquiry Committee told us that the customs revenue derived from articles of direct consumption by the population as whole increased by 307 per cent while that derived from articles of luxury increased by 254 per cent. The incidence of customs tariff is not equitably distributed. The result is that the richer classes do not contribute their fair share of the burden and a heavier burden of taxation falls upon the poorer section of the community. Attempts, however, are being made to make the system of taxation more equitable. Certain article of luxury which are consumed by the rich have been taxed and the cotton excise duty which increased the pressure of taxation upon the poor has been abolished. The progressive principle of taxation has been adopted in

assessing the income tax: but equity in taxation cannot be attained unless duties on sugar, salt and kerosene are removed. The Taxation Enquiry Committee have made certain recommendations in this direction.

Sec. 4. The Principle Sources of Central Revenue.

Various sources of Central revenue.

The income of the Government is to be adjusted to the expenditure of the Government. In the budget that is framed by the Finance Member we will often find an attempt to make such adjustment between the revenue and expenditure. In this section we shall have an account of the chief sources of Central revenue.

Under the Government of India Act, 1935 the Central Government will enjoy exclusively the following sources of revenue :—(1) Import duties, (ii) Corporation Tax, (iii) Federal Railways, (iv) Posts and Telegraphs, (v) Profits from coinage and currency, (vi) Shares of the profit of the Reserve Bank, (vii) Tribute from Native States.

The Central Government also enjoys $37\frac{1}{2}$ per cent of the Jute export duty, Shares of the personal income tax collected from the provinces when the proceeds together with the net revenue from the Railways exceed Rs 13 crores, surcharges on income tax, the entire proceeds of the personal income tax collected from areas administered by the central government, proceeds of the salt duty, central excise duties, and export duties ; but a part or whole of the proceeds of the last three sources may be given to the provinces.

(i) *Import duties* have been levied upon British goods and foreign goods at varying rates. These bring considerable revenue when they do not assume a protective character. This source is highly elastic and has been tapped very often to add to central revenue. During the last great war import duties on sugar, artificial silk yarn and thread, silver, kerosene, unmanufactured tobacco were raised. An emergency surcharge of one-fifth on all import duties was levied with the exception of raw cotton, petrol and salt.

Export duties have been levied on jute, rice and several other commodities. In 1940 the Agricultural Produce Cess Act levied an export cess at the rate of $\frac{1}{2}$ per cent advalorem on bones, butter, wheat, seeds, skins, tobacco, raw wool and other specified commodities.

The income derived from customs amounted to Rs. 40 crores in 1944-45. The Budget estimate of 1945-46 records an increase

in income on account of withdrawal of restriction on export and import imposed during the war time. The Government of India have a tendency to impose duties on articles of consumption and the result is that the incidence of these taxes fall heavily upon the poor.

(ii) *Corporation Tax* :—This tax figures prominently in recent budgets. The rate has been enhanced from time to time. The Supplementary budget of 1940 imposed a surcharge of 25 per cent on corporation tax. In 1942-43 budget a provision was made for raising the corporation tax to $1\frac{1}{2}$ annas in the rupee. The rate was raised again in the following year. The year 1944-45 witnessed an increase in the rate from 2 annas to 3 annas.

(iii) *Railways* :—Since the separation of the Railway Budget from the General Budget the Railways undertook the responsibility of making certain contribution to the General Finance. The contribution was settled on the basis of one per cent of the capital at charge of the commercial lines in the penultimate year, plus one-fifth of the surplus profits in that year, interest on capital at the charge of strategic lines and loss being deducted. The Railways did contribute considerable sums during the period of prosperity, 1924-25 to 1929-30. Then followed an era of deficits and the Railways failed to make any contribution. The result was a heavy accumulation of arrears which stood at Rs. $36\frac{1}{4}$ crores in 1939-40. The Moratorium Resolution passed in 1937, however enabled the Central Government to appropriate surplus of net receipts for three years ending in 1939 40. Next came the war time boom which strengthened the financial position of the Railways and the revenue from the Railways began to swell every year. In 1945-46 the net revenue stood at Rs. 63·90 crores out of which Rs. 32 crores were contributed to the General Finance. Such an appropriation was made in pursuance of resolution passed by the Assembly in March, 1943 according to which the surplus on the commercial lines was to be shared with the General Revenue in the proportion of three to one after repaying the outstanding loan from the Depreciation Fund.

(iv) *Post and Telegraph* :—The Post and Telegraph constitute another important source of the Central Government. The Postal rates have sometimes been enhanced for balancing tho budget. During the war time there were a few changes in the inland postal parcel rates and surcharge on trunk telephone calls and telegrams. Their net contribution to the general revenue was estimated at Rs. 11·85 crores.

(v) *Profits from coinage and currency* and (vi) *Profits of the Reserve Bank* :—The Central Government derives considerable revenue from this source. During recent years the income from this source increased abnormally on account of the minting of abnormally large number of small coins and the huge profit earned by the Reserve Bank in which the Government has a share. In 1945-46 the budget estimate showed an expected income of Rs. 12·28 crores.

(vii) *Tributes from the Native States* :—The Native States are to make certain contribution to the Government of India in discharge of their obligation under the treaties. In 1945-46 the Central Government derived Rs. 63 lakhs from this source.

(viii) *Jute Export duty* :—Among export duties the Jute Export duty occupies the pre-eminent position ; the duty was imposed for the first time in 1916-17 at the rate of Rs. 2-4 per bale of 400 lbs. Manufactured jute and the hessians were charged at the rate of Rs. 10 per ton and Rs. 16 per ton respectively. In the following year the duties were doubled. The jute-export duty is now a divided source and the Central Government has been given $37\frac{1}{2}$ per cent of the duty the gross yield from which was estimated at Rs. 3·8 crores in 1936-37.

(ix) *Income Tax* :—The income tax is the most important of all taxes levied in India. It was introduced for the first time in 1860 and remained in force till it was withdrawn in 1865. The rate of assessment was 2 per cent when the income was between Rs. 200 and Rs. 500. In 1867 a licence tax was imposed on trade and profession. This tax remained in force till 1872-73. In 1877 a licence tax was imposed on traders and artisans and each Provincial Government passed necessary Act for this purpose in 1878. The system of Taxing incomes was made permanent in 1886 by the Income-Tax Act of 1886 which provided for the taxation of all incomes other than agricultural incomes. The rate of assessment was too high and the exempted minimum was as low as Rs. 500. The taxable minimum was raised to Rs. 1000 by the Income Tax Act of 1903 and to Rs. 2000 by the Act of 1919. The Act of 1919 was followed by the Income Tax Act of 1922 which introduced more progressive taxation and higher super tax. The year 1931 witnessed substantial revision of both the kinds of taxes in an upward direction and the lowering of the tax-free minimum to Rs. 1000. There was reduction in the income tax rates on smaller incomes and in the surcharges in 1933 and 1935. In 1936 the taxable minimum was raised to Rs. 2000. Then came the Income Tax Amendment Act of 1939 which introduced the "slab system" and abolished the surcharges. The "slab system" involves the imposition

of progressive rates and differs from the step system under which the tax was charged at the same rate on the whole income. The rates of ordinary income tax payable by every individual, Hindu undivided family, unregistered firm and other associations of individuals not being a registered firm or company are as follow :—

On the first Rs. 1500 of total income	nil
On the next Rs. 3500 of total income	9 pies
On the next Rs. 5000 of total income	1 annas 3 pies
On the next Rs. 5000 of total income	2 annas
On the balance of total income	2 annas 6 pies

No tax is payable on incomes not exceeding Rs. 2000. Income tax on income just above Rs. 2000 is restricted to half the excess of the income above Rs. 2000.

In the case of every company and registered firm, whatever its total income the rate was 2 annas and six pies in the rupee.

The rates of super tax were also fixed. As the war broke out the income taxes and the super taxes had to be raised to meet the exigencies of the war. In 1940 the Excess Profits Tax was introduced. This provided for the imposition of 50 per cent on all abnormal war profits above a taxable minimum of Rs. 30,000 earned since september, 1939 on the basis of any standard year between 1935-36 and 1939-40. In November, 1940 the supplementary Finance Act was passed and provided for the levy of 25 per cent surcharge on all taxes on income including super tax and corporation tax. The next Finance Act of 1941 raised the surcharge to $33\frac{1}{3}$ per cent and the Excess Profit Tax to $66\frac{2}{3}$ per cent. The Excess Profit Tax was subsequently raised to $93\frac{2}{3}$ per cent.

The year 1942 witnessed a reduction in the taxable minimum from Rs. 2000 to Rs. 1500. The rate imposed was 6 pies in the rupee on the excess over the first Rs. 750 ; A central surcharge on incomes exceeding Rs. 2000 was imposed and there was an increase in the rate from $33\frac{1}{3}$ per cent to 50 per cent. The Corporation tax was raised to $1\frac{1}{2}$ annas in the rupee. Another novel feature of the Finance Act of 1942 was the introduction of deferred payment scheme which enabled the assessees under the lowered exemption limit to avoid payment by depositing an amount approximately $1\frac{1}{4}$ times the amount of tax assessed, in thé Post office Defence Saving Bank, not withdrawable till one year after the end of the war. The assessees under the Excess Profits Duty Act had to deposit compulsorily one-fifth of the amount of the Duty to be refunded within one year after the war. Next came

the Finance Act of 1943 which made provision for progressive increase in the surcharges on income tax amounting to $62\frac{2}{3}$ per cent over the then existing basic rates. It also increased the surcharge on super tax as well as the Corporation Tax.

An Ordinance of 1943 provided for the compulsory deposit of $\frac{1}{5}$th of the tax. This compulsory deposit was raised to $\frac{19}{64}$ in 1944. This deposit is to be refunded with interest of 9 per cent at the end of the war.

The Act of 1944 raised the taxable minimum to Rs. 2000, increased the central surcharge on income tax from 16 pies to 18 pies in addition to the basic rate of 24 pies on incomes between Rs. 10,000 and 15,000 and that on the balance from 20 pies to 24 pies in addition to the basic rate 30 pies. The Act also provided for an increase in the surcharge on Super tax on incomes between Rs. 35,000 and Rs. 2 lakhs and an increase in the Corporation tax from 2 as to 3 as subject to a rebate of one anna in the rupee on undistributed dividend.

The budget of 1944-45 introduced the so-called "pay as you earn" System of income tax according to which the assessee has to pay in advance the income tax on the basis of his own estimate of the income and the Government has to pay interest at the rate of 2 per cent on this advance payment.

The budget of 1945-46 contained proposal for an increase in surcharge of income tax, by three pies in the rupee on slabs above Rs. 15,000 as well as incomes assessed at the minimum rate. It introduced in the domain of Taxation the well-accepted distinction between earned and unearned income and proposed to grant exemption of one-tenth of the earned income subject to a maximum of Rs. 2000 in terms of income. The relief was not available to the companies and those who pay super tax. There was also a proposal for granting depreciation allowance of 20 per cent in respect of new buildings erected and of 20 per cent in respect of new plant and machinery erected after March 31, 1945. The Budget of 1946-47 has extended relief to the extent of one-fifth of the earned income subject to a maximum of Rs. 4000 and made the relief available also to the assessees of super tax. Special depreciation has been provided for. The Excess Profits Duty has been repealed from March, 1946.

In 1940 the Excess Profit Tax provided for the imposition of a tax of 50 per cent on all abnormal war profits above the taxable minimum of Rs. 30,000. This was followed by the Finance Act of 1941 which raised the excess profit tax from 50 per cent to $62\frac{2}{3}$ per cent of which $6\frac{2}{3}$ per cent was refundable at the end of the war.

In 1945-46 taxation of incomes yielded Rs. 100·83 crores and the corporation tax yielded Rs. 89·67 crores and the Excess Profits Tax yielded Rs. 13 crores. The estimated income from this source in 1946-47 is about Rs. 175 crores.

(x) *Central Excise duties* :—The Government of India has been in the habit of imposing excise duties with a view to supplementing its revenue. These duties have sometimes been imposed with the object of pacifying British concerns the products of which were charged with import duties. The imposition of cotton excise duty had this object in view; on account of continuous protest against this duty the Government of India had the good sense of abolishing this duty in 1926.

The Government of India still imposes excise duties on certain commodities produced in India. These include duties on kerosene, steel ingots, motor spirit, silver, sugar and matches. The excise duty on kerosene is 2 as. $9\frac{3}{4}$p. per gallon, plus a sur-charge of 25 per cent. that on silver bullion is 3 annas per ounce, that on steel ingots Rs. 4 per ton, that on motor spirit is 13 annas per gallon plus a surcharge of 25 per cent. Sugar has to pay an excise duty at the rate of 8 annas per cwt. on khandesari sugar and Rs. 3 per cwt. on all other sugar except palmyra sugar. The excise duty on matches has been in force since 1934 at the following rates :—Re. 1 per gross of boxes each containing not more than forty sticks, Re. 1-8 per gross of boxes each containing more than forty but less than sixty sticks, Rs. 2 per gross of boxes each containing more than sixty but less than eighty sticks, and on all other matches, 4 annas for every 1,440 matches or fraction thereof. The excise duty was doubled in 1941 and was associated with corresponding increase in the import duty. The excise duties figure prominently in recent budget estimates. In 1944-45 new excise duties were imposed on tea, coffee and betel nuts In 1945-46 the excise duty on the highest class of flue-cured tobacco was raised. In 1944-45 the income from this source was estimated at Rs. 39·07 crores. The provincial governments get certain shares of the proceeds of the excise duty on motor spirit for the purpose of road development. The central excises have been attacked on the ground that the incidence fall heavily upon the poor.

The Govt. imposes salt duty.

(xi) *Salt* :—The duty upon salt violates every principle of sound taxation inasmuch as the heavier burden of this tax falls upon the poor persons ; again, it is a tax on a necessary of life and a lower consumption of salt tells upon the physique of the people. But the Government has continued to impose this tax for three reasons—(1) It is productive of large amount of revenue to the State. (2) The

cost of collection is very small and in this sense the tax is said to be based on the principle of economy. (3) It is the only way in which the masses can be compelled to make some contribution to the revenue of the State. The rate of this tax has been increased from time to time with a view to removing the financial stringency of the Government. The rate of salt tax prevailed at Rs. $2\frac{1}{2}$ per maund till 1903 when it was reduced to Rs. 2 per maund. Further reduction was made in 1905 and 1907. In 1907 the duty was fixed at Re. 1 per maund. The rate continued at that level till 1916 but on account of financial difficulty the Government of India had to raise this duty. In 1916 the salt duty was raised from Re. 1 to Rs. 1-4 as, and later on in 1923-24 the Government raised the duty to Rs. 2-8 by the exercise of the special power vested in the Governor-General of India. The duty remained in force for a period of one year but in the next budget the Government was kind enough to reduce the duty to Rs. 1-4 per maund which was continued till 30th September, 1931. It was then raised to Rs. 1-9-0 with effect from 30th September, 1931. Besides this Excise Duty the Government has imposed import duties on foreign salt. Prior to 17th March, 1931 the excise duty and import duty on salt were kept similar, but by the Indian Salt (Additional Import Duty) Act of 1931, an additional import duty was levied at at the rate of $4\frac{1}{2}$ annas per maund. The duty was reduced by 2 annas in 1903 and to $1\frac{1}{2}$ annas in 1936. The Government of India derives large amount of revenue from this source. In 1945-46 this source yielded a revenue of Rs. 9·30 crores.

Sec. 5. The Indian Budget.

How the income is adjusted to the expenditure.

The budget means an account of the revenue and expenditure of the Government. After the Reforms Act there has been an allocation of separate sources of Revenue to the Central Government as well as to the Provincial Governments. Thus separate budgets are now framed by the Central Government and the Provincial Governments. Attempt is being made by the Government to adjust the income to the expenditure but in spite of these efforts the Government cannot avoid deficit budget in some years. In 1927-28 there was an actual deficit of Rs. 221 lakhs; in 1928-29 we found a deficit of 109 lakhs; in 1929-30 there was surplus of Rs. ·27 crores. The revised budget of 1930-31 showed a deficit of Rs. 13·56 crores. In 1932-33 a surplus of Rs. 2·15 crores was anticipated. In 1934-35 there was a surplus of Rs. ·36 crores. The surplus was secured by imposing an excise duty on sugar and an excise duty at the rate of

Rs. 2-4-0 per gross of boxes on matches made in British India. The 1935-36 budget was expected to show a surplus of Rs. 150 lakhs and the Finance member chose to reduce the silver duty to 2 annas per ounce and to reduce the surcharges on the income tax and the taxes on incomes between Rs, 1,000 and Rs. 2,000. During the war period India had to increase its central revenue on account of heavy war expenditure. In spite of this increase in revenue the Government could not avoid deficit in the budget which stood at Rs. 94·66 crores in 1942-43 and at Rs. 163·89 crores in 1945-46. When in the budget there is a deficit the Government has to borrow money to make up the deficit. The curious readers may go through the diagram given below and this will give them an idea about the financial condition of the Government of India. With the commencement of war India had to devise new methods of taxation in order to meet the military expenditure. The minimum of taxable income has been lowered down and an Excess-profit tax has been introduced with a view to appropriating almost the whole of profit.

Central Budget

Heads of revenue (in lakhs of rupees) in 1945-46.		Rs.
Customs	...	55,25
Central Excise duties	...	48,59
Corporation Tax	...	89,67
Taxes on income	...	100,83
Salt	...	920
Opium	...	127
Other Heads	...	318
Railways, net receipt	...	3200
Post & Telegraphs	...	1185
Debt Services	...	144
Civil Administration	...	226
Currency and mint	...	1228
Civil Works	...	66
Receipts from Indian States	...	63
Defence Services	...	1642
Deduct share of income tax revenue payable to provinces		2329
Total Revenue	...	**36234**
Deficit	...	**15529**
Total	...	**51763**

Heads of Expenditure (in lakhs of rupees) 1995-46.		Rs.
Direct Demands on Revenue	...	886·38
Irrigation	...	10·77
Post & Telegraphs	...	1·60
Debt Service	...	3395·19
Civil Administration	...	2755·00
Currency and Mint	...	170·49
Civil Work	...	246·58
Miscellaneous	...	1620·78
Defence Services	...	39423·39
Contributions and miscellaneous adjustment between central and provincial Governments	...	173·81
Extraordinary items	...	3079·00
Total expenditure		**51762·99**

Sec. 6. Expenditure.

The chief heads of expenditure may be classified as follows :—(1) Military services, (2) Civil administration, (3) Direct demands on revenue, (4) Debt service, (5) Civil Works, (6) Miscellaneous charges.

The heavy military expenditure and its causes.

(1) On the expenditure side the military services alone absorbs about Rs. 50 crores. This heavy expenditure on this particular item has been subjected to severe criticism by the Indian public but the Government has not taken care to reduce it because it considers that such expenditure is essential for the maintenance of peace and security. The root cause of this excessive expenditure is the increased employment of European military officers and soldiers whose salaries are several times as great as that of Indian officers and soldiers. Great economy can be effected in the expenditure of Indian revenue if these British officers and soldiers are replaced by Indian officers and soldiers. Substantial reduction in expenditure can be made if steps are taken to reduce the recurring cost and capital expenditure in all the departments of the Army. Again, a portion of this heavy expenditure should be borne by the British Exchequer because a major part of it is incurred for maintaining the supremacy of Great Britain in the East. The minority members of the Welby Commission emphasized the imperialistic policy lying behind the maintenance of the Indian Army. The Esher Committee also endorsed the same view. It is therefore just and reasonable that the British Exchequer should make some contribution for the maintenance of the Indian Army. It is gratifying to note that the British Government has roughly appriciated the position and in pursuance of the recommendation of the majority of the Capitation Tribunal has been contributing since 1933 a sum of £1½ million in lieu of expenses incurred by the India Government for imparting training to the British troops. The British Exchequer also made a grant of £5000,00 and also a capital grant of £5 million towards India's Defence expenditure in 1938. This temporary relief to the Indian Exchequer is of little assistance in view of the heavy expenditure which the Government of India has to incur every year for maintaining the British supremacy in India. The last war in which India had been an involuntary party necessitated an increase in India's Defence Expenditure and in the Budget of 1945-46 we found a provision for Rs. 394 crores under this head. This figure would have been higher but for the generous settlement reached with the British Government on the division of obligation for defence. Under this settlement India was to be liable only for the normal peace time cost of the Army in India,

adjusted in relation to the rise in prices, plus the cost of India's own immediate war measures, plus a lump sum of Rs. 100 lakhs towards the maintenance of external defence troops overseas.

Recommendation of the Retrenchment Commission.

Under abnormal conditions created by the present war an increase in military expenditure may be justified for the sake of safety; but in normal times this expenditure should not be unduly inflated to the detriment of the nation-building departments. That there is ample room for economy in the military expenditure is borne out by the emphatic recommendation of the Inchcape Committee for both immediate and ultimate reduction. The budgets of the pre-war years also prove that military expenditure can be reduced much below the maximum of Rs. 50 crores suggested by the Committee without impairing the safety of the country. Again, substantial economy can be effected by promoting Indianisation of military services and by encouraging the growth of national militia.

The Railway Budget in 1945-46 showed a gross Traffic Receipts of Rs. 220 crores, against a total working expenses of Rs. 159·87 crores. The contribution to the general revenue amounted to Rs. 32 crores in the same year.

(2) *Civil Administration* :—The next head of expenditure is that incurred in connection with civil administration. In the estimate of 1945-46 we find this item to absorb as large as Rs. 123 crores as against Rs. 38·97 crores in 1938-39.

The heavy expenditure under this item has been vehemently criticised by the Indian patriots. The cost of administration is too heavy for a poor country like India and is the highest when we compare it with similar costs in other countries. The root cause of this is to be found in the top heavy character of Indian administration. Fat salaries are often offered to the officers of the higher rank in order to attract European candidates. In addition to the salaries provisions are to be made for necessary allowances which go a great way in swelling the total expenditure. Again, we find a tendency to import foreign expert on payment of fabulous remuneration. Want of co-ordination between the different departments often leads to wasteful and unnecessary expenditure. The creation of several new provinces on uneconomic lines, the provision for granting subsidies in order to assist them in the working of the new constitution and the unfair adjustment of financial relation between India and Burma, the creation of several new departments to meet the exigencies of the war, grant of decent dearness allowances to the

Government servants, rise in the interest charges on Government borrowings are other important factors which cannot be ignored. The Indian opinion urges an immediate reduction of this administrative expenditure and insists on the appointment of a retrenchment committee to review the central expenditure. Substantial economy can be effected without impairing efficiency by promoting Indianisation of services and substituting the Indian officers for European officers.

(3) *Collection of Revenue* :—In the expenditure side we will find one item which is known as Direct Demands on Revenue. The cost of collection of revenue is included in that item and occupies a prominent position. The expenditure involved in collecting the revenue was about Rs. 8·86 crores in the budget estimate of 1945-46. Attempt should be made to economise this cost of collection.

(4) *The Debt Service* :—The Government has to spend considerable amount of money every year in paying the interest on both ordinary debt and productive debts as well as the liquidation of some portion of these debts. In the budget estimate of 1945-46 we found a provision for Rs. 33·95 crores.

(5) *Civil Works* :—The expenditure of the Central Government incurred in this connection in 1945-46 was Rs. 2·46 crores.

Sec. 6(a). India's War Burden and New Taxation.

The last war threw a heavy burden upon India. She had been financing huge defence expenditure on behalf of the Government of Great Britain and had already spent Rs. 1198 crores in that direction uptill 1944-45.

The estimate of 1945-46 shows an expenditure of Rs. 394 crores.

The contribution of Great Britain does not exceed Rs. 1374 crores.

The civil expenditure has also increased on account of the war.

Now the question arises as to the manner in which India discharged these onerous obligations thrust upon her. She had been printing notes for British Government against sterling credit. The notes came under circulation in payment of the various war services and could not be easily withdrawn by way of loan. This expansion of currency caused an inflation which has already assumed a serious character. The Government of India has not attempted to keep down prices. Its borrowing programme failed to absorb the volume of purchasing power created by the war.

In meeting the unusually heavy war expenditure the Government of India resorted to different schemes of taxation and borrowing.

There were both direct and indirect taxation. But these taxes were not sufficient for the purpose and the Government of India launched upon various schemes of borrowing. As regards direct taxation we find the following :—(1) Excess profits tax levied upon incomes above Rs. 36,000 has been raised to $93\frac{2}{3}$ per cent ; (2) Income tax and super tax have been assessed at higher rates. The exemption limit for income-tax has been lowered down to Rs. 1500. The surcharges have been imposed at the rate of $66\frac{2}{3}$ per cent of the basic income tax rate ; (3) Corporation tax have been raised with the result that the proceeds from this source have increased substantially ; (4) Contributions of Railways to the general revenue have been raised.

Among indirect taxes import duties have been raised by 20 per cent, duties on tobacco and vegetable ghee have been imposed and certain excise duties have been raised.

The borrowing programme exhibits varieties of loans. These include, (i) Loans or funded debt, (ii) Treasury bills or ways and means advances, (iii) Defence certificates, (iv) Deferred wages and dividends.

Sec. 6(b) Critical review of the Central Finance.

The Government of India has been tapping different sources for raising the requisite amount of revenue. The Income tax is the most important source of the Central Government. The introduction of the slab system has enabled the Government to mulct the wealthy minority and give relief to the poor majority. Nevertheless the taxation of income has been attacked on the ground that it does not provide for abatement by way of family allowances.

The excess profits tax which was introduced as a wartime measure has yielded substantial revenue. It has been attacked on the following grounds :—

(*a*) It is inequitable in as much as it is charged upon the profit of businessmen alone and leaves untouched the excess of income from other sources.

(*b*) It induces the businessmen to reduce their profits by handsome increment of wages and dearness allowance which go a great way in raising the cost of production.

(*c*) The combined influence of the income tax, super tax and the excess profit tax on the growth of capital and reserve has been disastrous. Again, no allowance has been made for the inevitable depreciation and loss incurred during the transit from war-time to peace-time.

The Salt tax has been attacked on the ground that its incidence falls more heavily upon the poor than upon the rich.

The Central Excise duties on articles of universal consumption press more heavily upon the poor consumers and are inconsistent with the Government's policy of protecting the home industry.

On the side of expenditure the expenditure on defence occupies the pre-eminent position. During the war time the expenditure rose as high as Rs. 301·20 cores. This expenditure is undoubtedly too heavy for India. His Majesty's Government agreed to bear a share of the defence expenditure in accordance with the new financial settlement arrived at in November, 1939. Under this settlement India had to bear (i) her pre-war budget for effective charges of Rs. 36·77 crores, (ii) an addition of Rs. 3·55 crores due to rise in prices, (iii) the cost of measures (Rs. 35·40 crores) undertaken for protecting purely Indian interests and (iv) the lump sum payment of Rs. 1 crore as contribution towards maintenance of India's external defence troops. If India would incur expenditure in excess of the amount specified above such excess would be recoverable from His Majesty's Government. With the development of war in the Eastern Theatre there was a re-adjustment in the financial relation and India was made to bear half of the capital outlay on supply measures and the whole of the capital outlay on air-fields and operational facilities. India was also held liable for the payment of non-effective charges of all defence personnel and her annual contribution was fixed at £1350000. India had to pay a lump sum of £15 million for non-effective charges on April, 1939. Her liability to pay the fixed annual contribution was reduced to £450,000 in consideration of the advance payment of £15 million. This arrangement has been attacked on the ground that the cost of maintaining British supremacy in India should be borne by His Majesty's Government and unnecessary burden has been thrown upon India.

Again, the peace time budget, should be remodelled so as to reduce the defence expenditure. Indianisation of the Army should be accelerated and short military service may safely be introduced with a view to effecting much needed economy in this sphere.

On civie department the cost is unusually heavy and the poor India has been forced to maintain a top-heavy administration. The real remedy lies in the Indianisation of services with a revision of the scales of salaries.

Sec. 7. Public Debt of India.

Productive and unproductive debts.

The Government of India like every other Government has to borrow money from time to time. The money so borrowed by the Government becomes its debt and the debt is technically known as the Public debt. The debts are incurred by the Government for two purposes, viz., (1) the productive purposes which include the investment on Railways and Irrigation and (2) unproductive purposes of meeting the ordinary expenses of the Government and of financing the war. The former kind of debt is known as productive debt inasmuch as the debt will be repaid ultimately out of the revenue that the investments will yield. The debts incurred for railways and irrigation are liquidated by the Government out of the revenue that it derives from them. The latter kind of debt is called the unproductive debt of the Government because this is generally incurred to meet the ordinary expenses of the Government. The burden of this Debt falls ultimately upon the people and will be repaid out of the general revenue of the Government. The debts incurred for meeting the extraordinary military expenditure also falls under the category of unproductive debt. The debts of the Government may again be classified into (1) funded or permanent and (2) unfunded or floating debts. The former kind of debts is incurred by the Government without any promise to repay them at any particular time but it is repayable only at the option of the Government. This is also known as the perpetual debt. This funded debt consists of the sterling and rupee loans. The unfunded debt (floating debt) signifies a kind of debt which is an advance to the Government repayable by the Government on the demand of the creditor or within a comparatively short period of time. The Savings Bank Deposits, the Treasury Bills and ways and means advances from the Reserve Bank represent the unfunded debt of the Government.

Funded and unfunded debts.

The Government of India borrows money both in London and India. Formerly the loans were raised exclusively in London but at present the Indians are found to contribute to loans of the Government to a considerable extent. The Indians purchase the large percentage of the rupee securities.

The justification of Govt. borrowing.

The Government is justified in borrowing money for the productive purposes because realisation of large amount of money that may be required for investment by taxation will put undue pressure upon the tax-payer. Again, such investment will be benefical to the interest

of the present generation in the same way as it is beneficial to the interest of the future generation. It is therefore desirable that the Government should meet its productive expenditure by loans; the Government is also justified in meeting heavy and unexpected expenditure by means of loans because enhanced taxation for the purpose would put too heavy a burden on the people but the ordinary expenditure of the Government should be met by means of taxation. An able financier should always aim at reducing the National Debt of the country to the lowest point possible.

The Government of India has undertaken the policy of reducing the national debt gradually. A scheme has been adopted since 1924 for making distinct provision for liquidation of a part of the debt every year. This scheme will, as the Finance Member says, continue for a period of five years. The annual provision for the reduction of debt was fixed at Rs. 4 crores a year plus $\frac{1}{80}$th of the excess of debt outstanding at the end of each year over that outstanding on the 31st March, 1923. Since then the Government has been applying some portion of the revenue to the reduction of debt. In 1931-32 the amount of revenue applied to the reduction of debt was Rs. 689 lakhs. Since 1934-35 the Finance Member has been providing Rs. 3 crores each year for debt redemption in contravention of the sinking fund arrangement.

The Provincial Governments have been given an increasing opportunity of borrowing money from the Central Government by the establishment of Provincial Loan Funds. In the budget of 1936-37 the loans by the Central Government to the Provincial Loan Funds were estimated at Rs. 3·98 crores.

The securities of the Government bear different rates of interest and the value of these securities depends greatly upon the amount of interest that they profess to pay. The value of the $3\frac{1}{2}$ per cent securities depreciated very much on account of the issue of 6 per cent bonds and $5\frac{1}{2}$ per cent War bonds.

During the 1944-45 two victory loans were floated, namely, Five-year interest-free prizebonds, and $3\frac{1}{2}$ per cent Rupee counterparts. The total interest bearing obligations amounted to Rs. 1848 crores in 1944-45 as against Rs. 1206 crores at the end of 1938-39.

Against the aggregate debt the Government maintain the following assets :—

(a) Capital outlay on Railways—Rs. 788 crores.

(b) Capital advance to other commercial undertakings —Rs. 138 crores.

(c) Debt due from Burma—Rs. 48 crores.

(d) Deposits from His Majesty's Government for redemption of Railway annuities—Rs. 29 crores.

(e) Cash and securities held on Treasury Accounts—Rs. 312 crores.

On account of the repatriation of sterling debts the sterling debt stood at Rs. 38'37 in 1944 as compared with Rs. 469'10 crores in 1939; the rupee debt in the same year rose to Rs. 1334 crores. The Government borrowing programme is now influenced by three factors. Viz., (1) deficit in the budget, (2) conver sion of sterling debts, and (3) withdrawal of surplus purchasing power as an anti-inflationary measure.

Sec. 7(a) Repatriation of Sterling Debts.

Total sterling loans repatriated.

The existence of a heavy load of foreign debt has been criticised on the ground that it often brings with it foreign interference in the political affairs of India. It is also contended that conversion of these sterling debts into rupee papers will offer opportunities for the investment of available funds in India and remove the difficulties consequent upon the fluctuation of rupee-sterling ratio. It is gratitifying to note that the Government has taken steps in the right direction and commenced repatriation of both terminable and non-terminable sterling debts. In 1939-40 the total value of non-terminable sterling loans repatriated amounted to £9,337,000, the nominal value of the Rupee Paper created against the sterling debt cancelled being Rs. 12,45,00,000 Since the announcement of the scheme for repatriation of the terminable sterling loans on the 22nd February, 1940 the India sterling stock bearing certain rate of interest and redeemable in certain year has been substituted by the rupee paper of the same description. The amount so repatriated during the year was £7,735,000 the nominal value of the Rupee Paper created in its place amounting to Rs. 10,34,00,000.

As the sterling resources of the Reserve Bank increased it was decided to repatriate the sterling debts. The Government therefore announced with the approval of the British Government its intention to acquire by compulsion all terminable sterling securities. This was followed by an order passed by the British Government requiring all holders of sterling securities to surrender them to the Government of India at the market rates. In this way terminable sterling securities of the value of £89 millions were liquidated. The holders

of non-terminable securities were given a year's notice to surrender their securities for redemption. These were redeemed on the 5th January, 1943. The total value of these securities was £158 millions. Considerable amount of railway annuities were also repaid. The United Kingdom and the Indian Government vesting orders dated the 16th January, 1943 called upon the holders of Railway Debenture stocks to surrender their holdings of the stocks. The total amount of stock surrendered amounted to £16·71 millions and cost the Government of India Rs. 22·03 crores. In this way the Government managed to pay off its sterling debts.

This repatriation of sterling debts has meant a considerable reduction of the burden of external debts and will surely go to reduce the amount of Home Charges payable by India. Such reduction adds to our prestige and reduces the hold of England over India in the financial sphere. The substitution of rupee securities for sterling securities means an extra source of income to the Government which can easily tax the interest derived from the internal loans. Repatriation also assits in the matter of withdrawal of currency in so far as the rupee counterparts find purchases in the market. Again, when the rupee loans carry lower rate of interest the burden of debt is automatically reduced. It has also minimised the pressure on rupee-sterling exchange and dispenses with the necessity of having a favourable balance even at the cost of India's economic interest.

The policy of repatriation has been critictsed on the following grounds :—

(1) The sudden rush for the purchase of sterling securities at comparatively high price meant a loss which could be safely avoided if the Government could wait and watch for a convenient price. (2) The holders of the sterling securities got abundant fund to invest in British Government's war loan and the policy of repatriation thus means greater advantage to the British Government. (3) Repatriation means disappearance of the sterling resources which were valuable assets to the Reserve Bank of India.

Sec. 7(b). New Defence Loans.

The present war has necessitated the issue of Defence Savings certificates of various denominations redeemable at the end of 10 years at Rs. 13-9 for each ten rupees invested. The 3 per cent Six-year Defence Bonds and Interest-free bonds were also issued in 1940. In 1941 a second 3 per cent Defence Loans were introduced. These had longer currency and were redeemable at par ; facilities have been given for opening Indian Defence Savings Accounts bearing interest

at $2\frac{1}{2}$ per cent per annum. Government has also issued rupee counterparts of the repatriated sterling stocks. The total receipts from these various savings loans amounted to Rs. 301·50 crores at the end of March, 1943.

Sec. 7(c). The Existing Sterling Resources : How to Use them.

The repatriation of the sterling debts could not absorb the entire sterling resources of India. India came to acquire huge sterling balances on the following grounds ;—(1) Her favourable balance of trade with the United Kingdom and other countries which made payments in sterling ; (ii) Payment was made in terms of sterling of the increasing military expenditure incurred by India on behalf of His Majesty's Government and other United Nations ; (iii) a large number of miscellaneous items of expenditure incurred in India, which was payable in sterling in terms of the Financial Settlement of 1939. In this way India's sterling balances expanded at a rapid space. This gave India the favoured position of a creditor and enabled her to repatriate her heavy sterling debts which stood at Rs. 396·50 crores in 1938-39. The sterling position at the end of January, 1945 is shown in the following table.

In crores of rupees.

1.	Sterling Assets held by the Reserve Bank, August, 1939	... Rs.	64
2.	Sterling purchased by the Reserve Bank upto January, 1945	... Rs.	633
3.	Sterling payments by His Majesty's Government.	...	1245
		Total	1942
4.	Sterling amounts involved in repatriation	...	400
5.	Other sterling commitments	...	238
6.	Sterling holdings of the Reserve Bank at the end of January, 1945	...	1304
		Total	1942

The sterling balances have been mainly utilised in the repatriation of sterling debts. The Government spent £ 62 million in funding the Railway annuities and redemption of Railway debenture stocks, £ 28 million in purchasing the company managed Railways, £ $8\frac{1}{2}$ million in repaying the chatfield debt and £ 15 million in the

allocation during the war of non-effective charges. Repatriation does not mean repayment. It means nothing more than the conversion of sterling debt into rupee debt. The rupee counter-parts were held by the Government of India and by the Reserve Bank till they could attract purchasers. The Reserve Bank's legal capacity to hold rupee securities had to be expanded by an ordinance which raised the maximum proportion of rupee securities to three-fifths of the total currency reserve.

The question that now arises is about the profitable use of these sterling resources. The Government proposes to use a part of these resources in making advance provisions for the payment of family pensions and provident funds of the civil servants. The balance is proposed to be devoted to the creation of a Reconstruction Fund for financing the programme of Post-war Reconstruction. The latter proposal is open to objection on the ground that it will compel India to purchase her requirements from the British market, but this objection cannot stand if the sterting resources are allowed to be utilised in purchasing foreign goods from the cheapest market. The British Government does not approve of the full employment of the sterling reserves as a fund which would be multi laterally convertible and demands a special mode of liquidation of these reserves to be devised by mutual agreement between India and Great Britain. The British Press views with great alarm the huge sterling balances to the credit of India and urges an immediate re-adjustment of the financial relation between India and England. In making such re-adjustment particular note should be taken of the degree of inflation of the Indian currency and the difference between the internal value and the external value of the rupee. The contention of the British Press is that if the external value of the rupee did fall to the same extent as its internal value the British Government could meet its war expenditure in India with a much lower quantity of sterling. This argument is fallacious because it would not have been possible for Great Britain to procure Indian goods during the time of war unless she could guarantee stability in the rate of exchange. Again, Indian export was greater than Indian import during the period of war and that factor alone was sufficient to raise the exchange rate. One more factor was that the British Government made its purchases in India at the controlled prices which had little or no reference to the actual price prevailing in the market.

British contention.

A reduction in the sterling obligation of Great Britain to India is also demanded on the ground that the Financial Settlement which

distributed the burden of war debt between India and Great Britain was unfair to Great Britain. The Indian opinion cannot appreciate the argument and points out the involuntary sacrifice in men and money which India had to make for the maintenance of British supremacy in India.

If the British Government cannot change its attitude and is not ready to allow multi-lateral convertibility of our sterling assets India will surely fail to utilise these resources in the Post-war reconstruction period when she badly requires a huge amount of capital. The utilisation of these resources will depend upon the capacity of Great Britain to supply producers' goods to India. Again, if immediate utilisation is not made possible by reason of the present state of British Industries the resources will lose its value in the event of any future depreciation of the sterling or appreciation of the rupee. Again, as the Reserve Bank has issued notes against our sterling assets any reduction in its value will mean cancellation of our note circulation and usher in a regime of deflation with all its consequences.

Sec. 8. Taxable capacity of India.

How to determine taxable capacity.

The taxable capacity of India as of every other country may be roughly determined by deducting the total quantity of consumption from the total quantity of production after making allowance for seeds and manures and for the replacement of any addition to capital required for production. Calculating on this principle we cannot precisely ascertain the taxable capacity of India because we are to depend upon insufficient and unreliable statistical data. In 1921-22 the taxable capacity was found out to be Rs. 39300 lakhs as compared with Rs. 56200 lakhs in 1910-11. Effective taxation which can be determined by deducting expenditure in internal debt from the total tax revenue was Rs. 12933 lakhs (33 per cent) in 1921-22 as compared with Rs. 7969 lakhs (14 per cent) in 1910-11.

In India the authorities do not take into account this taxable capacity in imposing various kinds of taxes on the people. This payment per head to the State inclusive of land revenue was calculated to be Rs. 5-0-6 in 1932-33. The official calculation however gives out a lower *per capita* levy of Rs. 2 – 11·3 annas which represents only 9 per cent of the average income.

Sec. 9. Devolution of Provincial Finance.

Earlier Condition.

At the present time we find that the sources of revenue of the Central Government are different from those of the Provincial Governments but this system of financial administration was introduced very recently. It is interesting to note the circumstances that led to the introduction of this novel system. Formerly, the provinces had no separate sources of revenue. The revenues of the Government were credited to the account of the Central Government and the provinces had to depend upon the Central Government for funds that they required for meeting their expenses. The amount of funds that was made over to the provinces depended upon their power of bargaining. Each Provincial Government used to disturb the Central Government with an increasing demand for funds. The situation of the financial administration during that time was summarized by Sir Richard Strachey thus :—

"The distribution of the public income degenerated into something like a scramble, in which the most violent had the advantage, with very little attention to reason ; as local economy brought no local advantage, the stimulus to avoid waste was reduced to a minimum, and as no local growth of the income led to local means of improvement the interest in developing the public revenues was also brought down to the lowest level."

First decentralisation during the Viceroyalty of Lord Mayo.

When Lord Mayo became the Viceroy of India an attempt was made to reform this defective system of financial administration. This led to the system of making a fixed grant to each Local Government for the maintenance of certain services such as Police, Jail, Education and the Local Governments were at the same time given the authority of supplementing their fixed amount of grant by means of local taxation. The system thus introduced gave the Provincial Governments an opportunity of economising their expenses and the Central Government was relieved of the repeated vexation to which it had been subject. For a period of time the financial administration of India continued smoothly but fresh difficulties arose on account of famines and the falling exchange. As a result of these difficulties further reforms were introduced. The system of making fixed grant to the provinces was substituted by the grant of a share in the revenue. In the settlement that was made with the provinces during 1877-82 we find that certain heads of revenue and expenditure were made over to the provinces for the

Settlement during 1877-82.

administration. In addition to the departmental receipts and the old lump-sum grant, they were allowed to have some definite share of the revenue derived from certain sources such as Stamp, Excise, Law, Justice and others. The object of such decentralisation was to give the provinces an increasing scope for economy in administration and to reduce the rigidity of control that the Central Government used to exercise upon provincial matters.

In the next settlement the same system was followed with slight modification. The sources of revenue could be *divided into three classes*, viz., (a) central, (b) provincial, and (c) divided. There were certain sources which were enjoyed wholly either by the Central Government or by the Provincial Governments while there were other sources which were divided between the Central Government and the Provincial Governments. To make up this deficit the Provincial Governments were given a certain percentage of land revenue.

The settlement was subject to revision every five years.

Quasi-Permanent Settlement of 1904.

In 1904 an important change took place in the financial administration of India. This was the introduction of quasi-parmanent settlement which meant that the assignment of revenue was not subject to alteration except in case of extreme and general necessity. The Central Government was thus relieved of the trouble in connection with the quinquennial settlements.

Settlement was made permanent in 1912.

During the administration of Lord Hardinge the existing quasi-permanent settlement was made permanent. This was done in 1912. The position of the central and provincial finances before the Montague-Chelmsford Reforms has been summarized by Mr. Coatman in the following manner: "the budget of the Government of India was made to include the transactions of the Local Governments, the revenue enjoyed by the latter being derived from sources of income which were shared between the Government of India and themselves. Generally speaking, certain heads of revenue, such as land revenue, excise, salt, income-tax and profits from productive irrigation works were divided between the Central and the Provincial Governments. The Provincial Governments took the receipts from Forest and Registration as well as from Courts and Jails. To the Goverament of India went the revenue from opium, customs, railways, post and telegraphs, and tributes from the Indian States. The Central Government, out of these incomes was responsible for defence charges, for the up-keep of railways, post and telegraphs,

Position before the Montague-Chelmsford Reforms.

for the payment of interest on debt and for the Home charges. The provinces from their incomes met the expenses connected with land revenue and the general administration, with forests, police, court and jails, with education and medical services. Charges for irrigation and ordinary public works were common to both the Central and the Provincial Governments."

Defects of the financial relations before the reforms.

The above financial relation had the following defects :—First, the system of dividing revenues derived from certain heads between the Central Government and the Provincial Government meant constant interference on the part of the Central Government and impeded the development of provincial finance. Secondly, the pre-reform system did not confer upon the provinces independent powers of taxation and borrowing and the result was that the provinces could not easily adjust their incomes to their expenditure. Thirdly, the system often caused financial inequalities between the provinces. Lastly, the system of assisting the provinces by occasional grants had its worst effect upon the provincial finance and encouraged extravagance.

The Montague-Chelmsford Committee enquired into the financial conditions of the provinces and came to the conclusion that the financial autonomy of the provinces could not be secured except by effecting a complete separation between the Central and Provincial finances. With a view to attaining that end, that Committee made the following recommendations :—

No divided Sources.

(1) There should be no divided source of revenue. The sources of revenue should be distributed between the Central and Provincial Governments. The land-revenue, irrigation, excise and judicial stamps should be made the purely provincial sources of revenue while the customs, income-tax, and general stamps should be retained by the Central Government as separate sources of revenue. In this way a separation between the Central and Provincial finances should become possible. Following the recommendation of the Montague-Chelmsford Committee a new allocation of revenue and expenditure was made in the following manner :—(1) Imperial Heads of revenue consisting of Customs, Income-tax, Opium, Salt, Railways, Post and Telegraphs, and Military receipts ; (2) Provincial Heads of revenue including Land revenue Stamp, Judicial and Non-judicial, Registration, Excise, and Forest. It should be noted in this connection that although income-tax was made an Imperial Head of revenue, the provinces were to be given a small

share of the income tax revenue, equal to three pies in the tax collection on every additional rupee of the income assessed over and above the income assessed in 1920-21.

How to make up the deficit in the Central Budget.

(2) Such an allocation of separate sources of revenue to the Provincial Governments would bring about a deficit in the central finance. The Committee recommended that the deficit should be made up by the payment of contribution by each province. The assessment of Provincial contribution should, as the Committee suggested, be proportionate to the gross surplus which each province would enjoy under the new allocation of sources of revenue. This method of assessment did not appear to be just and the Secretary of State appointed in 1920 another Committee known as the Meston Committee to investigate the financial relation between the Central and the Provincial Governments and to suggest an equitable standard of fixing contributions payable by the provinces. The Committee found that the deficit for the year 1921-22 was Rs. 983 lakhs. The contribution that each province would have to pay in order to make up this deficit was fixed by the Committee with reference to the additional spending power that the Provinces enjoyed that year on account of the allocation of separate sources of revenue. The Committee recommended the provincialisation of General Stamp in order to strengthen the financial position of the Provinces. The standard contributions to be paid by the Provinces in the succeeding years were also determined as certain proportion of the total deficit. These proportions were 19 per cent from Bengal, 18 per cent from the United Provinces, 17 per cent from Madras, 13 per cent from Bombay, 10 per cent from Bihar and Orissa, 9 per cent from the Punjab, $6\frac{1}{2}$ per cent from Burma, 5 per cent from Assam. This standard should be adopted within a period of seven years.

Appointment of Meston Committee.

Surplus budget and remission of Provincial contribution.

The Provinces objected to this method of realising provincial contribution. Madras keenly appreciated the rigour of such settlement because the initial contribution that it had to make was the highest. The provinces regarded the contribution payable by them as a "crippling levy on their revenues." The financial position of the Government did not improve for a period of time and hence no question of remission of provincial contribution could possibly arise during the several years that followed the Meston Award. In 1925-26 the Finance Member had the pleasure of declaring a surplus budget. The budget of that year showed a surplus of 324 lakhs of rupee and

the Finance member announced that a large sum of 250 lakhs of rupees would be utilised in securing permanent remission of Provincial contributions : but every Province had not the equal claim to remission ; the Government of India followed a certain equitable plan in reducing the Provincial contribution and according to that plan Madras, United Provinces, the Punjab and Burma were given the prior claim over other Provinces. In the next Budget, i.e., Budget for 1926-27 there was a further remission of Rs. 125 lakhs in favour of the Provinces mentioned above. In 1927-28 the entire amount of outstanding contribution was remitted and finally relinquished in 1928-29.

Merits and defects of the Meston Settlement.

The Meston Settlement rendered a great service to the Central Government by suggesting a method whereby the deficit in the central budget would be made up by the payment of the Provincial contribution. The allocation of separate sources of revenue to the provinces was responsible for this deficit budget and the Meston Committee could not devise any other way of adjusting the income to the expenditure except by the payment of certain amount of contribution by the Provincial Governments to the Central Government. The Committee suggested an equitable standard of Provincial contribution inasmuch as it recommended that the contribution should be proportionate to the additional spending power which the redistribution of sources of revenue brought to the Provinces. The Meston Committee also determined the fixed proportion of the future deficit which would be realised from the Provinces in the succeeding years of deficit budget ; the rate of Provincial contribution put undue pressure upon the finances of some of the Provinces. The redistribution of resources accompanied with the payment of Provincial contribution improved, no doubt, the position of an agricultural Province like the Punjab but the provinces like Bombay and Bengal with considerable industries were not placed in a favourable position. This payment of Provincial contribution necessitated retrenchment of public expenditure with the result that the provinces could not work the dyarchical Government satisfactorily. Sometimes the Provinces had to impose additional taxation in order to meet the necessary expenses of the Government. This system of Provincial contribution was devised as a temporary measure and the Central Government was asked by the Meston Committee to economise its expenditure for the ultimate remission of contribution. The settlement of Provincial contribution so far as Bengal was concerned could not be given effect to because, the financial position of Bengal was the worst during that time. Bengal

therefore, was favoured with a remission for a period of three years.

We have already seen that Montague-Chelmsford reform was introduced with a view to securing financial autonomy to the Provinces and to reducing to a minimum the interference by the Central Government in provincial matters. The reform was based on the theory of complete federal separation but it was defective on the following grounds :—

Defects of the Mont-Ford system.

(i) A complete and clear-cut division between the central finance and provincial finance was neither possible nor desirable. (ii) The sources of revenue that were allocated to the Provinces were inelastic and incapable of expansion. The Central Government on the other hand, had the most productive sources of revenue. (iii) Inadequate funds which the Provinces could derive from their sources of revenue were not sufficient to meet the expenses of the nation-building departments which were placed in their charge. (iv) The reforms no doubt increased the spending power of the Provinces but created inequality in their financial conditions—an inequality which was accentuated by the abolition of Provincial contribution. (v) The residuary powers of taxation were vested in the hands of the Central Government while the Provinces could only impose the scheduled taxes.

The Simon Commission and the Layton scheme.

The necessity of re-adjustment of financial position was keenly felt. When the matter came up before the Simon Commission Sir Walter Layton, the Financial Assessor of the Simon Commission submitted a scheme of reform in the following lines :—(i) reduction of the import duty on foreign liquor so that the Provinces might impose further excise duty upon it, (ii) distribution of the proceeds of the salt duty among the Provinces on a *per capita* basis, (iii) assignment of one-half of the proceeds of the income-tax to the Provinces, (iv) income-tax on agricultural incomes to be imposed and enjoyed by the provinces, (v) Terminal taxes, (vi) Provincial surcharge on income-tax, and (vii) new excise on matches and cigarettes which together with the proceeds of the salt duty would go to constitute a Provincial fund to be distributed among the Provinces on a *per capita* basis.

The Government of India could not approve of this scheme inasmuch as it would result in a loss of about Rs. 12 crores of Central revenue and involve an imposition by the Provinces of Rs. 24 crores

of new taxation. Again, the scheme was highly optimistic in its estimate of the surplus of Central revenue and the proposed taxes would scarcely bring the estimated revenue to the Provincial Governments.

Peel Sub-committee.

The position was again reviewed in detail by a subcommittee of the Federal Structure Committee presided over by Lord Peel and subsequently by the Federal Finance Commitee with Lord Eustuce Percy as Chairman.

The recommendations of the Percy committee with certain modifications were incorporated in the Government of India Act, 1935. The Act is an important constitutional document and introduces for the first time a scheme of federation for India. The sources of revenue have been distributed between the Federation and Provinces with a view to giving the provinces autonomy in the financial sphere. The entirely provincial sources inculde land revenue, excise duties on alcoholic liquors, opium and other narcotic drugs, taxes on agricultural income, taxes on land, mineral rights, and buildings, taxes on professions and trades, capitation taxes, taxes on animals and boats, on the sale of goods and on advertisements, taxes on luxuries, on entertainments, amusements, betting, gambling and duties in respect of succession and agricultural land. The provinces have been given shares in the proceeds of the income tax, federal excise duties and export duties. Again, the proceeds of certain taxes administered by the Federal Government are to be transferred to the provinces after deduction has been made of the surcharges for federal purposes. These include duties in respect of succession to property other than agricultural land, such stamp duties as are mentioned in the Federal Legislative List, terminal taxes on goods and passengers carried by railway or air and taxes on railway fares and freights. The Act also makes provision for grants-in-aid to certain provinces in order to enable them to work the new scheme of provincial autonomy.

Recommendation of Sir Otto Niemeyer.

Sir Otto Niemeyer was appointed by the Secretary of State to report upon the convenient method of distributing the share of the income-tax and of the export duty on jute and to make recommendation in regard to the payment of subvention to the provinces. Annual cash subventions recommended by Sir Otto Niemeyer are as follows ;—To the U. P. Rs. 25 lakhs for 5 years only, to Assam Rs. 30 lakhs, to Orissa Rs. 47 lakhs for one year, Rs. 43 lakhs annually for the next four years, and Rs. 40 lakhs annually thereafter, to the N. W. F. Province Rs. 100 lakhs (subject to the consideration

after 5 years) and to Sind Rs. 110 lakhs for one year and Rs. 105 lakhs for each of the next 9 years.

In regard to distribution of the share of the Income-tax Sir Otto Niemeyer recommended that fifty per cent of the proceeds of a share of the income-tax should be available for distribution among the provinces in the following manner :—

Bengal 20% ; Bombay 20% ; Madras 15% ; the United Provinces 15% ; the Punjab 8% ; Bihar 10% ; the Central Provinces and Berar 5% ; Assam 2% ; The North-West Frontier-Province 1% ; Orissa 2% ; and Sind 2%.

Out of the total amount thus available the Federal Government has been authorised to retain for the first period of five years in each year the whole of such amount as together with the general receipts from the railways will bring the Central Government's share in the divisible total upto Rs. 13 crores, whichever is less, and for a second period of 5 years in the first year five-sixths of the sum, if any retained in the last year of the first period, decreasing by a further sixth of the sum in each of the succeeding 5 years.

In 1939 the Niemeyer award of the income tax was amended by Parliament. An Order-in-Council has been in force since the 1st day of April, 1939 whereby the Railway contribution has been excluded from consideration and the central share of the divisible pool has been fixed at the average of the last three years namely Rs. $4\frac{1}{2}$ crores for each of the three years 1939-40, 1940-41, 1941-42 the balance being available for distribution among the provinces.

As regards jute-export duty, Sir Otto Niemeyer recommended that out of the jute-export duty $62\frac{1}{2}$ per cent of the jute-export duty should be assigned to the jute-growing provinces.

Sec. 10. Sources of Provincial Revenue under the Present constitution and their productivity.

The Provinces enjoy financial autonomy in the sense that they have been favoured with separate sources of revenue and do not depend upon what the Central Government may be pleased to allot in their favour. The sources of revenue which they are now allowed to enjoy include (i) Land Revenue, (ii) Judicial Stamps, (iii) Excise duties on alcoholic liquors, opium, hemp narcotics and drugs, (iv) Registration, (v) Forest, (vi) Duty on electricity (vii) Receipts under the Motor Vehicles Act, and (viii) Agricultural income tax, (ix) taxes on professions, (x) sales taxes, (xi) taxes on luxuries.

In addition to those taxes the provincial governments will get the entire preceeds of the following taxes levied and collected by the central government viz., (a) stamp duties, (b) terminal taxes on goods and passengers carried by Railway, (c) taxes on railway fares, (d) duties on succession to property other than agricultural land. The jute-growing provinces are getting 62½ per cent of the proceeds of the jute export duty. Bengal Government derived from this source Rs. 1·2 crores in 1945-45. The Provincial Governments get 50 per cent of such excess of the proceeds of the personal income tax within their areas as together with the railway profit, amount to Rs. 13 cores. They now get the balance, if any after the fixed sum of Rs 4½ crores have been paid to the Central Government. In 1945-46 the Bengal Government obtained Rs. 4·7 crores from this source.

(i) **Land Revenue** :—In former times Land Revenue was the mainstay of Indian Finance but in recent times the introduction of other kinds of taxation has removed this source from the pre-eminent position that it once occupied. Nevertheless the different Provinces derive considerable revenue from this source. The principle of assessing this revenue is not the same in all provinces and the productivity of this source depends greatly upon the system of assessment that is adopted. The United Provinces had the highest income from this source in 1938-39. In Bengal, where the permanent settlement is in vogue, this source has been the most inelastic of all sources and has failed to yield considerable revenue. In 1945-46 the total yield in Bengal was Rs. 3·96 crorers.

(ii) **Stamps** :—The stamps are of two different kinds, viz., (1) the commercial stamps and (2) the judicial stamps. The latter kind of stamp which comes within the domain of the provinces plays the more important part because a large percentage of the revenue is derived from this kind of stamp. Again, the judicial stamp is to be purchased by a person who has to institute suits in the law-court. The payment, therefore, is to be made for the special benefit that the person instituting the suit derives from the State. This is the reason why the payment is described as fee and not as tax. The revenue from this source is gradually increasing. In 1945-46 Bengal alone derived an income of Rs. 2·85 crores from this source. The commercial stamps represent duties levied upon commercial transactions entered in documents.

(iii) **Excise** :—The Provincial Governments derive considerable revenue from the manufacture and sale of intoxicating liquors, hemp, drugs, toddy and opium. They are found to impose duty upon the

manufacture of intoxicating substances and levy fees for sale licences. This policy has been adopted with a view to restricting the consumption of intoxicating substances which tell upon the health and strength of the people.

In Bengal this source alone contributed about Rs. 6·6 crores in 1945-46.

(iv) **Registration** :—The revenue from this source generally takes the form of fees charged upon documents when they are presented for registration. The Provincial Governments have increased their revenue by enacting that certain documents will not be valid unless they are duly registered. The payment under this head cannot be described as tax because it has reference to the special benefit that the Governments confer by making provisions for such registration. In 1945-46 the Government of Bengal derived a revenue of Rs. ·50 crores.

(v) **Forests** :—The Provincial Governments derive considerable revenue from the forests which have been assigned to them. The revenue accrues mainly from the price of timber sold as well as from grazing fees and licence fees. Better results are expected if a more scientific method of administration is adopted. In 1945-46 this head yielded in Bengal a net return of Rs. 61 lakhs.

(vi) **Duty on Electricty** :—This is an important source of provincial revenue. The Government of Bengal obtained in 1945-46 an income of Rs. 40 lakhs.

(vii) **Receipts under the Motor Vehicles Act** :—These receipts figure prominently in the Provincial budget. In 1945-46 Bengal alone received from this source Rs. 19 lakhs.

(viii) **Agricultural Income tax** :—This contributes decent amount to the provincial exchequer every year. The income from this source in Bengal was Rs. 50 lakhs in 1945-46. Bihar and Assam derive considerable revenue from this source.

(ix), (x), (xi) Taxes on professions and sales taxes have been resorted to in many provinces for raising additional revenues. In Bengal, Madras and the Punjab sales taxes have been levied. In Bengal the tax has been levied at the flat rate of three pice in the rupee on the total turnover upon all dealers who import for sale or manufacture or produce goods for sale exceeding Rs. 10,000 a year or any other dealer whose sales exceed Rs. 50,000 a year. Certain commodities which are regarded as necessaries of life have been exempted. The burden of this tax generally falls on the consumers except in case of articles the demand for which is highly elastic. Taxes have

been levied on luxuries, entertainments and betting. They yielded in Bengal Rs. 45 lakhs in 1945-46.

The total revenue derived by the Government of Bengal amounted to Rs. 28·8 crores in 1945-46.

Sec. 10(a). The Items of Provincial expenditure.

With the introduction of provincial autonomy the provinces have got to administer certain important subjects with money derived from the sources of revenue allotted to them. The main items of expenditure include (i) Police, (ii) General administration, (iii) Administration of Justice, (iv) Jails, (v) Education, (vi) Medical, (vii) Public Health, (viii) Agriculture, (ix) Veterinary, (x) Co-operation, (xi) Industries, (xii) Civil works, (xiii) Debt services, (xiv) Famine Relief, (xv) Other items. During recent years the expenditure on the provincial items has expanded with the expansion of revenue. The total receipts of all the provinces rose to Rs. 200·78 crores in 1944-45 as compared with Rs. 84·74 in 1938-39. The increase in expenditure is due to the following factors :—(a) grant of higher dearness allowances to Government servants, (b) cost of medical relief and control of epidemics, (c) expenditure in famine relief in Bengal, (d) cost of civil supplies department, (e) trading loss due to sale of food grains at subsidised rates and wastage of stocks.

During 1944-45 many provinces had to take recourse to ways and means advances from the Bank and certain provinces had to float 3 per cent medium dated loans to the extent of Rs. 13·28 crores. The Government of Bengal witnessed a deficit budget in 1944-45. The revenue derived in the same year was Rs. 35·66 crores while the expenditure stood at Rs. 47·01 crores. In 1945-46 the revenue position stood at Rs. 28·79 crores while the estimated expenditure was Rs. 37·39 crores. On the expenditure side the Police occupied the pre-eminent position absorbing as large as Rs. 3·3 crores. Next came Education which involved Rs. 2·64 crores. The General Administration involved an expenditure of Rs. 2·19 crores. The Famine Relief had to be administered on a large scale. This involved an expenditure of Rs. 3 crores.

Sec. 11. Financial Position of the Provinces under the Niemeyer's Award : How to Improve the Financial position of the Province of Bengal ? Niemeyer's Award criticised.

An estimate of revenue and expenditure.

We have already seen that since the introduction of Provincial autonomy in India, the Provinces have been enjoying roughly separate sources of revenue. The revenue derived from these sources is supplemented by contribution from the Central Government in regard

to certain divided sources and total revenue thus obtained is spent in the administration of provincial subjects. The re-adjustmeat of financial resources between the Central Government and the Provincial Governments as effected by the statutory provision and Niemeyer's Award has strengthened the economic position of the provinces to some extent. So far as Bengal is concerned she is better off to the extent of Rs. 75 lakhs a year than before. The Niemeyer's Award increased her share in the jute export duty to the extent of Rs. 42 lakhs and gave an annual relief to the extent of Rs. 33 lakhs by cancelling her accumulated debt to the Centre. In spite of this increase in income and the unexpected receipt of the share in the income-tax the Government of Bengal is not in a position to meet its expenses. Its revenue and expenditure could not balance in 1938-39 and in 1939-40. The budget of 1940-41 also revealed a deficit of Rs. 57 lakhs. The total revenue receipt amounted to Rs. 13·97 crores while the total revenue expenditure stood at Rs. 14·54 crores. The budget estimate of 1945-46 does not show any improvement. The expenditure stood at Rs. 37·3 crores as against the estimated revenue of Rs. 28·7 crores. This gloomy aspect of the finance of Bengal is to be dispelled, otherwise she will fail to work the scheme of provincial autonomy. One suggestion which we can make in this connection is the transfer of the entire proceeds of the jute export duty to Bengal so that the latter may be in a position to balance her budget. The Government of Bengal has imposed sale taxes and has imposed taxes on agricultural income and but for these new impositions the deficit would have been larger.

The resources of the Government of Bombay have improved no doubt by the re-allocation of sources of revenue. She has also obtained an annual relief to the extent of approximately Rs. 90 lakhs from the separation of Sind ; but Bombay is not satisfied with the Niemeyer's Award and claims a larger share of the income-tax on the ground that her contribution to this tax is higher than that of any other provinces. Again, she puts forward her claim to a share in the cotton-duties when the sister province Bengal has been favoured with a share in the jute export duty. Madras is decidedly at an advantage under the present arrangement. Her revenue expanded to Rs. 16·13 crores in 1940-41 and the Budget of the same year showed a surplus. She has also received an annual relief to the extent of Rs. 20 lakhs by reason of the separation of Orissa : she, however deplores that she has been given a lower share of the income-tax although she is entitled to as much as 24 per cent of the income-tax on the basis of population.

The Punjab has some grounds of complaint and apprehends a fall of her receipts from the Central Government by Rs. 5 lakhs annually. As against this she has obtained substantial relief by the separation of the North-West Frontier Province.

The poorer provinces like Assam, Orissa, North-West Frontier Provinces and the United Provinces have been granted cash subvention and annual relief by cancellation of debts. All these provisions have gone a great way in strengthening the financial position of the provinces concerned. This is clear from the surplus budgets of all Provinces except Bengal, Orissa and the Punjab in 1940-41. Nevertheless the Niemeyer's Award cannot claim unqualified support from the province. The Award has made the provincial share of the income-tax dependent upon the Railways making substantial contribution to the Central Government. This unhappy contingency over which the provinces have practically no control may deprive the provinces of their legitimate share in the income-tax. Again, the Award which had always been anxious for the financial stability of the Government of India did not attempt to suggest economy in the central expenditure with a view to giving greater relief to the provinces and enabling them to work the nation-building departments on efficient lines.

Sec. 11(a). Some New Provincial Taxes.

The provinces have been forced by circumstances to impose new taxes in order to balance their budget. These include (i) the Sales-tax (ii) the Agricultural income-tax and (iii) Employment-tax.

(i) *The Sales tax :*—The sales tax has been an important source of revenue in recent years. In 1945-46 the estimated yield was Rs. 2 crores. In Bengal the tax has been imposed on all dealers who import or manufacture or produce any goods for sale exceeding Rs. 10,000 a year or any other dealer whose sales exceed Rs. 50,000 a year. The rate of tax has been raised to 3 pice in the rupee. In Bengal a single-turn-over tax has to be paid while in Madras the tax has to be paid each time the commodity is sold. Bengal, again, exempts from this tax a large group of commodities including rice, pulses, flour, salt, mustard oil, kerosene oil, agricultural implements, primary books, quinine. In Madras exemption can be claimed only by a few commodities such as cotton yarn, hand-woven clothed and bullion.

The tax has been an elastic source of revenue and has yielded substantial revenue. It also claims justification as an anti-cyclical measure to keep under restraint the war-time boom. The tax has

been attacked on the ground that it is highly regressive in character. Its incidence falls more heavily upon the poor than upon the rich. The incidence may fall upon the producers and dealers only when the demand is highly elastic and there is keen competition among them. When the tax is borne by the businessmen and the latter get an abnormally low profit by reason of the tax the capital may fly to other provinces where the sales tax is not in vogue. Other objections against this tax are difficulties of collection, unnecessary harrassment to the traders who have got to keep regular accounts.

(ii) *Agricultural Income-tax* :—The Agricultural Income-tax was not unknown to ancient India. It was first imposed in 1860 and was in force till 1865. It was again imposed in 1869 and continued till 1872. The Zeminders whose revenues were fixed protested against the imposition of agricultural income-tax on the plea that it would amount to a special charge imposed in contravention of the terms of settlement. The Government of India Act, 1935 authorised the provinces to levy tax on agricultural income and in pursuance of this statutory provision Bihar was the first to introduce this tax in 1938. In Bihar the tax has been levied on incomes over Rs. 5000 after deducting land revenue, cases and collection charges.

In Assam the Agricultural Income-tax was imposed in 1939 and the assessable income was fixed at Rs. 3000 and upwards.

In Bengal the advisability of levying the Agricultural Income-tax was referred to the Floud Commission which recommended its imposition as an interim or permanent measure. Accordingly, the Agricultural Income Tax Act was passed in 1944. This Act defined an Agricultural income and prescribed scheduled rates of assessment. The rates vary with the amount of agricultural income and the nature or class of the assessee. In the case of every individual, Hindu undivided family (not consisting of brothers) or Ruler of an Indian State no tax is payable on the first Rs. 1500 of income. The next Rs 3500 will be taxed at the rate of 9 pies in the rupee. The progressive rates for higher incomes have been prescribed. In the case of company, firm or other Associations of individual the whole of the agricultural income is to be taxed at the rate 2½ annas in the rupee.

40 per cent of the Tea garden income is to be treated as agricultural income and assessed as such.

The agricultural income tax claims justification on the following grounds :—

(a) It is a general tax and does not contravene the provisions of the permanent settlement. (b) It is furnishes the best method of

taxing unearned increment from land. (c) It will discourage the investment of capital in land and promote industrial development. (d) It will be a highly productive source of revenue.

The taxation of agricultural income in spite of all its justifications is not free from criticism. It has been argued that the provision of taxing the income of an undivided Hindu family even when the share of a brother falls below Rs. 3500 will lead to disruption of joint family with all its evils. Again, the Indian tea gardens 40 per cent of the incomes of which will be treated as agricultural income and taxed as such will suffer greatly because their rival European concerns will enjoy the benefit of double taxation relief.

(iii) *Employment tax* :—This tax was first introduced in the United Provinces in 1939. The salaries of professional men were sought to taxed on a graduated scale which sometimes covered as much as 10 per cent of the income of the assessee. The Government of India Act was amended so as to limit such taxation to Rs. 50 per annum. The Government of Bengal has fixed the tax at the ungraduated rate of Rs. 30 per annum on every person whose income is assessable to income tax.

Sec. 11(b). An Ideal Financial Policy.

In modern times the financial policy of the Government of India as of every other Government should deviate from the orthodox principle of balancing budget at any cost. The ideal financial policy should have an altogether different objective. It must not lose sight of the fact that in a capitalistic regime there are some productive resources which are not utilised by private enterprise and the financial policy of the Government should be so adjusted as to ensure full employment of all available resources. The state should scrutinise the income and outlay of the community and prepare a programme of Optimum Natural Outlay which will ensure profitable employment of the resources for the benefit of people and guarantee equitable distribution of national income. The state will have to undertake the responsibility of securing full employment to the people and work in close co-operation with private industrialists. Such a co-ordination is particularly needed during the Post-war Reconstruction period.

In raising revenue the state should rely not so much upon indirect taxation as upon direct taxation because indirect taxation on necessaries reduces consumption and tells upon the health and the strength of the people.

Sec. 12. Home Charges.

The total contributions that India has to make to England annually constitute Home charges. The payment is to be made by India partly on account of her political relation and partly on account of her economic relation with Great Britain. Let us consider the various items that enter into Home charges.

The principal items of expenditure (incurred in England and charged against Indian revenue) included in the Home charges can be found in the following table.

	(In 1936-37) £ millions
(1) Interest, annuities and Sinking funds regarding Railway debt	10·9
(2) Interest on ordinary debt	6·5
(3) Management of debt	·1
(4) Stores for India	2·83
(5) Military and Marine	10·91
(6) Cost of Civil Department	·88
(7) India Office and High Commissioners' Office	·23
(8) Civil Furlough and pensions	1·76
(9) Miscellaneous	0·03
	34·21
Deduct Receipts in England	4
	£30·21

From the above table it is clear that the Home charges, amount to £30·21 millions. Some of the items of expenditure included within Home charges such as (1) Interests on Railway and ordinary debts and (2) store purchased represent to some extent the economic relation that happens to exist between India and England. This expenditure on account of economic relation comprises about two-thirds of the annual contribution and the remaining one-third is the price for India's political relation with England.

Home charges analysed.

Sec. 13. The Home Charge—whether a Drain.

The returns which India gets for this payment.

There is a difference of opinion as to whether the whole of Home charges constitutes a drain. In order that a proper solution of the problem may be possible it is necessary to know what is meant by the term 'drain'. It means that portion of India's payment for which in that year she receives no material equivalent in goods or money. Let us now see whether India gets any return for the payment that she makes to England. If we study critically the different items that enter into Home charges we will at once come to learn that the considerable amount of money paid as Home charges represents the interest on capital that has been borrowed by India for productive and unproductive purposes. India borrows money in England because London is the cheap money market of the world and derives huge amount of profit by investing the amount of capital borrowed for productive purposes. India has to pay a very low rate of interest and in return she enjoys the enormous profits that investment in Railways and in other productive enterprises yields. Therefore this part of the payment cannot be termed as drain.

Again, for the payment of the prices of stores purchased by the Secretary of State on behalf of India she certainly gets some returns. She pays for the stores that are imported into India in the same way as the ordinary importer will pay for his own imports. The Indian Stores Department has been instituted with a view to encouraging the purchase of Stores in India. If the purchase of Stores is strictly confined to articles which are either not available in India or available at a higher price, this item of foreign payment does not constitute drain. The two items mentioned above cover as large a portion as ⅔rds of the total Home charges. The remaining portion of the Home charges may be roughly termed as the political drain. The expenses on account of the Military and the Naval Departments which cover about Rs. 15 crores every year may be termed as drain because India derives little or no benefit from such defensive measures. Again, the expenditure on this item can be reduced to a large extent if the European officers and soldiers are substituted by the Indian staff.

Huge salaries that are paid to the European staff.

The expenditure on account of the Civil Department and on account of the officers of the Secretary of State and of the High Cemmissioner represents another instance of the political drain. Europeans are employed to occupy the posts of responsibility and the salaries that are paid to them are

several times as high as that paid to the Indian officers. We, however, do not deny the fact that the European officers render some services to the country but what we mean to say is that the services rendered by them are not proportionate to the high salaries that are paid to them. Thus there is an element of drain so far as this part of the expenditure is concerned. Thus from the consideration of the various items of Home charges, we come to this conclusion that the whole of Home charges does not constitute a drain but there are certain expenditure which include an element of drain. This drain is generally due to the political relation that India has with England.

Sec. 14. How Home Charges are paid ?

Sale of Council bills by the Secretary of State.

The Home charges are paid out of the revenues of the Government of India. In the central budget provision is made every year for considerable amount of money which is necessary for the discharge of Indian's obligation to England ; the provision is made in terms of rupees but the Home charges are to be paid in terms of sterling. Hence the question arises as to the method of making such payment. India cannot make payment by remitting the amount of rupees that the Government has in its treasury on account of Home charges because England has nothing to do with these silver tokens. The Home charges were formerly paid out of the proceeds of the sale of Council Bills. The Secretary of State used to sell Council Bills when the exchange value of the rupee reached the specie-import point and out of the sale proceeds paid the required amount of sterling obligations. Sometimes the condition of the exchange rate did not permit him to sell Council Bills and under such state of things payment of Home charges was made by withdrawing money from the Gold Standard Reserve Fund and the Paper Currency Reserve Fund.

Home Charges are paid by purchase of sterling in the open market.

The method of making payment by the sale of Council Bills had important effects on the exchange rate. In order to maintain the exchange rate the Secretary of State began for a period of time to sell Council Bills in response to demands of trade ; thus Home charges were met through the operation of trade and commerce. This method of making payments has, however, been substituted by another method. This consists in making remittance by the purchase of sterling in the open market in India. This method has been adopted inasmuch as it helps the Government to regulate

the rate of exchange with greater efficiency. The Hilton Young Commission recommended that this remittance business of the Government should be made over to the Reserve Bank when it would come into existence and that the Bank should be given the freedom to employ such method or methods as it might find most convenient and conducive to the smooth running of the financial machine. The newly created Reserve Bank of India which has been authorised to undertake this remittance business purchases sterling in open market for meeting these Home Charges.

Sec 15. Finance of the Local Self-Governing instituiions.

The development of Local Boards.

The Local Self-Government consists of the following classes of organisations, viz, the District Boards, the Municipalities, the Local Boards and the Port Trusts. These public bodies have been entrusted with the administration of the local areas under their control and have been authorised to derive their revenue from certain sources. The number of municipalities is increasing every year. At present there are 798 municipalities in British India with nearly 22876000 residents within their limits and with an aggregate income of Rs. 38 07 crores. The municipal functions relate mainly to public health, safety, convenience and instruction. The municipalities have certain sources of revenue which include taxes and rates of various description. Certain amount of income is derived from the proceeds of the municipal property, tolls from roads and ferries, taxes on property, on trades and professions, fees and licences and incidental receipts from the markets that exist within the municipal areas. The amount of revenue thus raised is supplemented by grants-in-aid from the Government.

Chief sources of revenue.

The municipalities spend their revenue in improving the conditions of roads within municipal areas and in making proper arrangement for education and sanitation of the locality. The municipalities include only ten per cent of the total population of India and hence they are not in a position to play an important part in the organisation of Local Self-Government in India. A greater importance may be attached to the constitution and organisation of District Boards and Local Boards which serve as rural municipalities. Almost every district of British India has such an organisation. There are as many as 12479 Boards including Local Boards, Union Boards and Union Panchayats of Madras and their receipts are about Rs. 16 crores. The District Boards are entrusted to perform the same functions in the villages as the Municipalities are entitled to perform in the towns. Their chief source of revenue

is the Public Work Cess which is collected with the land revenue. They have several other sources of revenue such as receipts from educational and medical institutions, from ferries and cattle pounds. These local bodies have been given certain powers of taxation but their power is strictly controlled by the Scheduled Taxes Rules which provide for tolls, taxes on land and land values, taxes on buildings, on vehicles, on boats, on animals, menials and domestic servants, octori duties and terminal taxes and similar other taxes. The revenue thus derived from the various sources is supplemented by the grants made by the Government for special purposes. The revenue of the District Boards is spent on the following heads, viz., (1) Road-construction and improvement, (2) Primary Schools, (3) Charitable dispensaries, (4) Drainage, (5) Water-supply, (6) Markets, (7) Conservancy, and (8) Miscellaneous.

These important functions of the local bodies cannot be discharged satisfactorily for want of adequate funds. The Taxation Enquiry Committee appreciated this difficulty and made certain rocommendations for additional sources of revenue.

The incidence of municipal rates has been estimated at Rs. 5-12 as. per head while that of Boards rates and cesses at only 9½ as. per head.

The Port Trust.

Next we come to the Port Trusts. These organisations exist for the administration of ports that exist in India. They are known as port commissioners. They have been vested with certain rights and charged with certain responsibilities. The revenue is derived by certain fees charged for services rendered as well as by the imposition of certain rates on shipping and goods. They spend the revenue in making provision for suitable dock accommodation and for other conveniences. The principal Port Trusts are those at Calcutta, Madras, Bombay, Karachi and Chittagong with a total income of Rs. 7·64 crores.

Union Boards.

Besides the above Self-Governing institutions several other similar organisations have manifested themselves in the villages. These are the Union Boards and the Panchayat Committees which owe their origin to the passing of the Village Self-Government Act.

Sec. 16. How to Improve the Economic Position of Local Bodies.

Suggestions of Taxation Enquiry Committee.

When we study the economic position of local self-governing institutions one patent fact that at once attracts our attention is their poverty. These institutions have been charged with the solution of many vital problems but the funds at their disposal are scarcely

sufficient for the purpose. Hence an improvement in the local finance is urgently called for. The Taxation Enquiry Committee made the following important suggestions in this connection :—(a) stanardisation of the land revenue at a low rate so as to give better scope for local taxation, (b) introduction of taxation of advertisement, (c) imposition of fee for the registration of marriages, (d) imposition of a provincial tax on motor cars and the reduction of the import duty to the extent of the provincial tax, (e) grant of subsidies to promote services of national importance, (f) supplementary non-tax services, e.g., commercial undertakings like tramways, electric works, gas works, theatres, etc., (g) acquisition of landed estates yielding decent income.

If the local bodies are allowed to extend their powers of taxation in the above line and to supplement the revenue raised from this source by profits derived from commercial undertakings their economic position will surely be improved. Again, the provincial governments should also assist the local bodies by grant-in-aid and by guaranteeing the loans which the local bodies may choose to raise for productive purposes.

Questions and Answers

Q. 1. What are the Home charges ? Briefly describe the methods by which payments are made by this country to England. (C. U. 1909-10, 1912, 1920).

Ans. *See*—Secs. 14 and 16.

Q. 2. Analyse the sources of Indian Revenue and write a full note on the revenue from opium. (C. U. 1909).

Ans. *See*—Sec. 4.

Q. 3. Write a short note on Salt tax. (C. U. 1909-10 ; 1939).

Ans. *See*—Sec. 4.

Q. 4. Write a short note on opium revenue. (C. U. 1911).

Ans. *See*—Sec. 4.

Q. 5. Give an account of India's public debts. (C. U. 1912 and 1945).

Ans. *See*—Sec. 7.

Q. 6. What do the Home charges consist of ? How much of them represents interest on capital invested in India ? Do the Secretary of State's drawings exactly correspond with the net exports of India's merchandise and treasure ? (C. U. 1910-14).

Ans. *See*—Secs. 12 and 14.

Q. 7. Explain how the Home charges are met through the operations of trade and commerce. (C. U. 1914.)

Ans. *See*—Sec. 14.

Q. 8. Write notes on the following :—(1) The Salt tax, (2) The Income tax. (C. U. 1919).

Ans. *See*—Sec. 4.

Q. 9. Distinguish between direct and indirect taxes. Discuss their respective merits and give an account of the direct taxes levied in India. (C. U. 1927).

Ans. *See*—Sec. 2.

Q. 10. Write notes on the following :—

(*a*) The Separation of the Indian Railway Finance from the General Finance.

Ans. *See*—Sec. 4.

(*b*) The merits and demerits of the Meston Settlement. (C. U. 1927).

Ans. *See*—Sec. 9.

Q. 11. Give a historical account of the opium policy of the Government of India. Is the present policy of the Government open to serious criticism?

Ans. *See*—Sec. 4. (C. U. 1924).

Q. 12. What are the grounds on which revision of the Meston Settlement is necessary from the points of view of Bengal? (C. U. 1928).

Ans. *See*—Sec. 9.

Q. 13. Examine critically the main provisions of the Income-tax Act of 1922; and explain its significance in the development of Indian Fiscal system.

Ans. *See*—Sec. 4. (C. U. 1923).

Q. 14. Classify the public debt of India. How far do you think that our debt position is economically sound? (C. U. 1929).

Ans. *See*—Sec. 7.

Q. 15. Discuss the relative advantages of loans and taxes as methods of raising revenue. Illustrate your answer with reference to Indian condition. (C. U. 1930).

Ans. *See*—Sec. 7.

Q. 16. Describe the chief sources of revenue and the main heads of expenditure of the Central Government in India. (C. U. 1933).

Ans. *See*—Secs. 4 and 6.

Q. 17. Carefully examine the nature of public debt in India and discuss how far it is economically sound or unsound. (C. U. 1934).

Ans. *See*—Sec, 7.

Q. 18. Compare the advantages and disadvantages of direct taxation with those of indirect taxation in India. (C. U. 1934).

Ans. *See*—Sec. 2.

Q. 19. Describe the sources of revenue of the Central and Provincial Government in India. Can you suggest a more equitable distribution of revenue between these two Governments? (C. U. 1936).

Ans. *See*—Secs. 5 and 11.

Q. 20. Analyse India's Home charges and explain how they are met through the operation of trade and commerce (C. U. 1933).

Ans. *See*—Secs. 12 and 14.

Q. 21 Examine the division of financial resources between the Central Government and the Provinces under the present constitution of India. (C. U. 1939).

Ans. *See*—Secs. 4. 9 and 11.

Q. 22. Can you suggest any measures by which the financial resources of the Government of Bengal may be augmented? (C. U. 1940).

Ans. *See*—Sec. 11.

Q. 23. What are the chief sources of revenue of the Central Government in India? Give a rough idea of the relative importance of the different items of the present day. (C. U. 1940.)

Ans. *See*—Sec. 4.

Q. 24. Briefly state the chief measures taken by the Government of India to meet the requirements of war finance. (C. U. 1942, 1944).

Ans. *See*—Seo. 6(*a*).

Q. 25. Discuss the importance of (*a*) Income Tax and (*b*) Land Revenue in the Indian Tax system. (C. U. 1942).

Ans. *See*—Sec. 4 (iv) and Sec 10 (i).

Q. 26. Discuss the merits and demerits of the measures that have been adopted by the Government of Bengal in recent years to increase the revenue of the Province.

Ans. *See*—Sec. 11.

Q 27. Explain the origin of 'Sterling Balances'. How can they be best disposed of? (C. U. 1943). **Ans.** *See*—Sec. 7(*c*)

CHAPTER XX

PROBLEMS OF POST-WAR RECONSTRUCTION

Sec. 1. Economic Consequences of the War.

The last Great War in which India had to play a prominent part in aiding the military operation of the allies raised many new issues and complicated the old problems. These problems and issues deserve careful investigation and figure prominently in every plan for Post-war Reconstruction of India. In the sphere of industry many new problems have arisen. India had to set up many new establishments for the manufacture for war materials. These factories cannot be closed without tremendous loss of capital, labour, and enterprise. Some new avenues must be found not to keep these men and machinery employed. The transition from war to peace would necessitate reconversion of the existing war industries to peace-time industries. The industries engaged in producing consumer's goods witnessed considerable expansion on account of the unusually heavy demand from the allied nations. Although the demand for these goods from the civil population will increase in the post-war period it is doubtful whether the whole of the output will find purchasers in the home market. It is therefore clear that the demobilization of the existing plants and machines to civilian use and fruitful employment of them are problems which effect the industrial structure and deserve careful consideration in every scheme of Post-war reconstruction.

Another problem which confronts us is the problem of agriculture. The war has taught India the lessons of deficiency in the supply of food stuff. The Bengal famine showed the precariousness of our food situation. The people of India should not depend upon foreign supply and must grow more food so as to make India self-sufficient in the matter of food. The re-organisation of agriculture deserves unqualified attention of the planners.

Another new problem in regard to agriculture is adjustment of agricultural prices to a level which will remunerate the agriculturists without causing hardship to the consumers.

Another problem of the post-war period is that of disposing of the surplus military stores and equipments. The military consideratio has led to huge accumulation of stores which must be disposed of without affecting the productivity of the industries concerned.

Another important problem is that of re-adjustment and the re-employment of defence service personnel and labour to peace-time conditions.

The method of price-control and rationing of articles of consumption require some modification with a view to ultimate abondonment of all restrictions.

Sec. 2. Post-war Reconstruction Committee : its Plans.

The necessity for economic planning becomes obvious when we take into consideration the various problems which confront us in an orderly transition from the atmosphere of war to that of peace. In appreciation of this necessity the Government of India has already set up the Post-war Reconstruction Committee with both official and non-official members. The task before the committee is extremely difficult in view of the fact that India cannot lag behind when the United Nations have already unanimously accepted the policy of securing for all men freedom from want and fear.

The economic planning in India should have that object in view and share with the United Nations the idea of a more prosperous world where people will live in plenty. Unfortunately the planners of India cannot conceive of a state of things which knows no want.

The Post-war Reconstruction Committee has published two interim reports laying down their schemes of both short-term and long-term planning. The short-term planning has in view the problems involved in transition from war to peace while the long-term planning embraces schemes of agricultural and industrial development, road development, rural and urban development as well schemes for promoting social security and education.

The scheme of agricultural development embodies measures for improving the system of irrigation and reclaiming waste lands. The scheme of industrial development attaches greater importance to production of capital goods and those consummers' goods which satisfy the want of the masses. Greater stress has been laid on the development of electric power and its application to agriculture and industry. The Committee emphasises the need of technical education without which success in the sphere of industry cannot be achieved. The report also contains proposals for improving the health and strength of the Indian people because productive efficiency is influenced greatly by such improvement.

The Committee emphasises the need for social reform and recommends an improvement in the rural condition so as to make

village life more attractive for men of culture and erudition. To effect this co-operation of the village people is urgently called for. The Government will do well to appoint Development Officers specially trained for the purpose.

In the towns immediate steps should be taken to provide for better housing accommodation for the industrial population and for adding to the amenities of town life.

The Government of India must have to play a great part in giving effect to the schemes as enunciated above. In the domain of industry the Government has already taken an active interest. An official statement has been published for centralisation of certain industries such as (i) iron and steel, (ii) machine tools, (iii) heavy chemicals, (iv) electric power, (v) heavy machinery, (vi) air craft, (vii) ship-building, (viii) rubber manufactures, (ix) cotton and woollen textiles, (x) sugar, and (xi) coal.

This statement means an extension of state control over the industries and consequent elimination of private enterprise. The Government is in a move to nationalize the basic industries and leave to private enterprise many other industries which do not require direct state management. Even in this latter sphere the Government must not forget its responsibility. It must exercise varying degrees of control over the private industries and assist the private capitalists in the matter of securing requisite capital by making loans or subscribing a share of the capital.

The Government may also encourage the development of industries by guaranteeing a minimum dividend on capital for a fixed number of years. The responsibility of the Government does not end there. It has other responsibilities as well. It must promote research work by giving financial aid to the research institutions, regulate tariff policy with a view to giving necessary protection against foreign competition, assist in the matter of procuring machinery and plants on suitable terms and purchase the stores from the Indian concerns.

The Government has also decided to introduce a system of licensing industries in order to regulate the undue concentration of industries in certain localities and to prevent over-production.

The financial responsibility of the Government in the matter of industrial development necessitates rigid control over capital issues. Governmental control in other spheres is required to promote social security, to raise the standard of living and to promote standardisation of the quality of products.

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The Government of India has fully appreciated the necessity of central control and responsibility during the Reconstruction period. But mere planning will be of no use. There must be a sincere desire for the welfare of Indians and full effect must be given to the scheme. This will bring in the question of finance. The report of the Post-war Reconstruction Committee emphasises the necessity of improving the financial position of the Central and Provincial Governments in order that they may discharge their responsibility during the reconstruction period. New sources of taxations must be devised. The finance member has referred to the central excises and the death duties and intends to derive substantial revenue from these sources. The committee, however has more confidence in the borrowing programme which brought substantial revenue during the war time and may conveniently provide the authorities with necessary funds for peace-time reconstruction.

It should be noted in this connection that the Government of India is not yet ready with any effective plan. It has dissolved the Re-construction Committee and distributed the work among the members of the Executive Council. There is thus no possibility that the Government will give effect to the suggestion of the committee in the near future.

Sec. 3. Bombay Plan.

This plan comes out of the fertile brains of eight leading industrialists who met in Bombay to devise a plan for economic development of Post-war India.

The plan aims at doubling the present per capita income within a period of fifteen years. To achieve this end the net output of agriculture is to be more than double and that of industry increased approximately five times. This will involve an estimated expenditure of Rs. 10,000 crores. The authors of the plan also enumerate the following sources of finance :—

Hoarded wealth	Rs. 300 crores.
Sterling Securities	Rs. 1000 ,,
Balance of Trade	Rs. 600 ,,
Foreign borrowing	Rs. 700 ,,
Internal savings	Rs. 4000 ,,
Created money	Rs. 3400 ,,

The plan can be given effect to by a National Government which is to be set up atonce. This plan has received warm reception from

the public men of India but the British Press has been eloquent in condemning the plan as one which is capitalistic in spirit and does not took to the welfare of the teeming masses. The plan is no doubt very modest in its aims and objectives. It aims at mere doubling the per capita income and cannot compare favourably with the plan of social and economic security in Great Britain and U. S. A.

The plan equally emphasises the need of industrial and agricultural development. The industries which the plan wants to develop include both basic and consumption goods industries ; but the basic industries like electricity, mining, chemicals, armaments and transport deserve immediate attention because without these industries no practical scheme of Post-war reconstruction can materialise.

Particular emphasis has been laid upon the improvement of agriculture. In this sphere, improvement is to be effected by introducing scientific method of production and the system of rotation of crops. The system of irrigation should also be improved. Soil erosion should be prevented by a scheme of afforestation. Co-operative farming should be encouraged and model farms should be established in order to equip the agriculturists with scientific training.

In sphere of transport the plan incorporates provision of extension of railways and substantial improvement in road mileage.

The 15 year plan as envisaged above has been conveniently subdivided into three 5-year plans. In the sphere of distribution the plan shows a keen appreciation of the evils of inequitable distribution of national dividend. To remove this the plan proposes the imposition of death duties and the provision of a minimum income which will enable each individual to maintain a standard of living which is substantially higher than the present standard. With this object in view the authors of the plan lays down a scheme of full employment with substantial rise in rural and urban rates of wages. The maintenance of agricultural prices at remunerative levels has been emphasised and an immediate reform in the land tenure system has been urgently called for.

The plan does not contemplate complete nationalisation of the means of production but does not at the same time dispense with the necessity of state control when such control is exercised by a national Government.

Sec. 4. Criticisms of the Bombay Plan.

The Bombay plan reveals much constructive thinking and gives us a comprehensive scheme for Post-war Reconstruction. The plan

cannot claim unqualified support from all quarters. The British Press has condemned it as capitalistic in spirit and aims but this criticism cannot carry weight in view of the fact that we find in it, a sincere attempt to raise the standard of living of the masses. The plan has also been attacked on the ground that it lays greater emphasis on the development of industries to the detriment of agriculture. This is not true; of course industrialisation finds a prominent place in the scheme by reason of the phenomenal growth of industries during the war time; but this does not necessarily mean that agriculture has been denied its proper place in the scheme. The financial aspect of the plan has been attacked on the ground that the estimate has been arrived at on the basis of pre-war price-level and cannot claim accuracy as the present price level is substantially higher. The sources of finance in the Bombay plan are based upon misconception. An artificial distinction has been drawn between India's export surplus and savings. From the national standpoint export surplus is nothing more than savings. Again, the created money as envisaged in the plan is associated with dangers of inflation which can be eliminated by a drastic over-all control imposed by strong Central Government. Again, it is also doubtful whether the plan would ever materialise in view of the dependence of India on foreign countries for the supply of machinery but this is no defect of the plan. The plan again, does not fully appreciate the difficulties in regard to supply of trained personnel who can administer efficiently the various problems during the re-construction period.

The Bombay plan is also insular in its outlook. There is undue emphasis on the aspects of national self-sufficiency and the plan is based on Indian resource; but in these days of international trade we cannot altogether ignore the available resources of the world.

APPENDICES

Summary of Reports and Recommendations.

APPENDIX A

A Brief Summary of the Report of the Fiscal Commission

This Commission was appointed by the Government in October, 1911 "to examine with reference to all the interests concerned the tariff policy of the Government of India, including the question of desirability of adopting the principle of Imperial Preference and to make recommendations".

The Commission studied the conditions of Indian industries and came to the conclusion that the industrial development has not been adequate and efforts should be made to develop the Indian industries. In order that such development may be possible the Government should adopt the policy of discriminating protection. In protecting the industries care should be taken to make the burden on the community due to the imposition of protective duty as light as would be consistent with the development of industries.

The Commission recommended the establishment of a Tariff Board which would act as an Advisoy Council and should consider the claims of different industries for protection. If the Board is satisfied that the industry really deserves protection it should advise the Government to that effect. The Commission laid down certain principles for the guidance of the Board while recommending protection. These are three in number :—

(a) The Industry claiming for protection must possess natural advantages ; (b) that protection is urgently necessary, otherwise the industry will fail ; (c) that industry would in the long run be able to face foreign competition without protection.

The Commission recommended that industries which should be developed for the national safety should be protected provided the conditions for their development are not unfavourable.

The Import Duty should not be imposed on raw materials and machinery because the imposition of such duty would hamper the progress of Indian industries,

The Export Duty may be imposed for purely revenue purposes but such duty should never be imposed for protective purposes because in that case the domestic producers will be seriously affected. The export duty may be imposed on foodstuff for temporary period with a view to checking the abnormal rise in the price of foodstuffs.

When it is found that importation of certain dumped goods is detrimental to Indian industries care should be taken to impose dumping duties with the object of protecting those industries.

The Commission strongly condemned the imposition of Cotton Excise duty because such duty hampered the progress of the cotton industries. It recommended that the Parliament should confer upon the legislature of India full power of regulating her excise policy solely with reference to her own interest. The commission recommended the abolition of import duties on coal and machinery and of the export duty on hide and tea.

The question of desirability of adopting the principle of Imperial Preference was referred to the Commission for examination and recommendation. The Committee examined the scheme and made the following recommendations :—

(1) It is not desirable that India should adopt the general preferential policy.

(2) The preference may be given to certain commodities only under the following conditions :—

(a) that the approval of the Legislature should be taken before such preference is given ;

(b) that no preference should in any way diminish the protection required by Indian industries ;

(c) that the preference should not cause any greater economic loss to the country when the loss has been compared with the gain that will follow from preference granted by the United Kingdom.

The Commission recommended that preferential treatment should be accorded to British industries whenever it is possible to accord such treatment ; that such preference should be granted as a free gift but no preference should be granted to any other country included within the British Empire except on the principle of reciprocity.

With regard to the importation of foreign capital in India the committee opined that India could not go on without foreign capital, hence no obstacle should be placed upon the importation of such capi-

tal ; but the commission recommended that the Government should favour with grant of monopolies and other concessions those companies which were incorporated with rupee capital and which would have Indian Directors and would afford facilities for the training of Indian apprentices.

The Commission emphatically deprecated the system of double tariffs and the employment of tariff as an instrument for aggression on retaliation.

An attempt should be made for the promotion of Indian industries by making suitable arrangement for the primary education and for the training of the apprentices.

Again, care should be taken to remove the difficulties that are occasioned by the shipping rebates, by the importation of dumped and bounty-fed goods and by depreciated exchange.

The above recommendations were signed by all the members subject to a minute of dissent by five members. The minority of the members who signed this minute of dissent considered the policy of discriminating protection and the conditions which should govern such policy as too stringent and recommended that the fiscal policy best suited for India is protection and that if any discrimination should become necessary for the protection of the interest of the consumer, the question should be fully determined by the Government of India and the Indian Legislature.

The minority of the members were in favour of the imposition of an excise duty on commodities the consumption of which is detrimental to the health and strength of the population because such excise duty will raise the price and reduce the consumption of such articles.

As regards the desirability of the adoption of the Imperial Preferential scheme the minority of the members recommended that India could not adopt the scheme of Imperial Preference unless she had been favoured with the responsible form of Government and unless she was able to regulate her own tariff policy by the vote of a wholly elected legislature. Again, no preference should be granted to the self-governing colonies unless they agreed to favour India with similar preference and recognised the rights of the Indian people living in the dominions to a state of complete equality.

As regards the importation of foreign capital the minority of the members recommended that those companies should alone be protected which were incorporated in India with rupee capital and which had reasonable proportion of Indian directors and at the same time afforded opportunities for the training of Indian apprentices.

The Minority of the Commission made certain recommendations in connection with the constitution of the New Tariff Board.

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APPENDIX B

A Brief Summary of the Industrial Commission's Report

The recommendations of the Industrial Commission are based upon the following two principles, viz :—(1) That the Government of India which kept itself aloof from the industrial sphere must play on active part in the industrial development of the country with the aim of making India a self-sufficient unit ; (2) that it is impossible for the Government to play that active part unless provided with adequate administrative equipment and forearmed with reliable, scientific and technical advice.

The commission recommends the creation of administrative machinery in the following manner :—

(1) That an Imperial Department of Industries should be created. This Department should be under the control of a member of the Viceroy's Executive Council who will be assisted by a Board of three members. The Department so created should be vested with the responsiblity of formulating sound industrial policy and should carry out uniform programme for the industrial development of the whole of British India. In order that these functions may be successfully performed the department would require the assistance of mechinical engineers ; hence, provision must be made for the appointment of an efficient staff. The Committee also suggested the formation of the Imperial Industrial Service so that the difficulties incidental to the casual recruiting of officers may be avoided.

(3) The actual administrative work should devolve on the Provincial Governments. In each Province there should be a Department of Industry which should be administered by a Director of Industries assisted by specialists and technical advisers who should be usually recruited under the Indian Imperial Service. The Director should also receive instructions from the Provincial Board of Industries consisting mainly of non-official members. Thus aided by the specialists in industries and by the Board mentioned above the Provincial Directors will be in a position to foster the growth of the industries in the best possible ways.

The Commission gives in the first few chapters an account of the industrial backwardness of India. The bulk of the population depends upon agriculture for subsistence and they do not even care to increase the return from land by up to date methods of cultivation. The march of modern industry has produced little or no effect upon their economic conditions. The progress that is to be found in the rural areas has been the outcome of economic rather than industrial revolution.

The deficiency in industrial development has been mainly due to the low standard of living of the people and the inefficiency of the Indian labours. Again, the inadequacy of the supply of capital and the shyness of the Indian capitalists are other causes of India's industrial backwardness. The capitalists of India are less enterprising and for that reason cannot take risks boldly. They will invest their money in those commercial and industrial undertakings in which the chance of profit is very great. India has to import large quantities of manufactured articles from foreign countries and has to part with its agricultural products in paying the value of her valuable imports. This economic dependence has serious consequences on the material progress of the country and the situation becomes precarious in times of war when the supply of these articles is reduced considerably.

India however has great possibility for success in the industrial sphere. This is shown by the fact that India has a large supply of raw materials. The foreign countries that have flourished in the industrial sphere depend greatly upon India for the supply of raw meterials but India remains idle and depends upon foreigners for the supply of manufactured articles which are urgently required by her people. The economic position of India can be improved if care is taken to remove those obstacles that stand in the way of her industrial success. The first step that should be taken in this direction is to improve the condition of labour supply. India has a large supply of inefficient labour and this supply can be increased by the utilisation of labour-saving machinery in agricuture. The Commission mentions three important causes of the inefficiency of Indian labour. These are (1) absence of education amongst Iudian artisans, (2) their low standard of comfort, and (3) their poor health. The Commission makes distinct recommendation for the removal of each of the three evils mentioned above.

For the removal of the first evil the Commission recommends that the Government should take immediate steps to make arrangement for the spread of universal primary education ; but the spread of primary education alone cannot make the labourers efficient. Attempts should also be made to make adequate provision for the technical education of

the labourers. The method of training should not be the same in all cases. For the training of workers in cottage industries the Commission recommends that the Government should make provision for the establishment of industrial schools supervised by headmasters with practical knowledge of the industries taught and controlled by the Department of Industry. The best method of training the workers in organised industries should, as the Commission suggests, consist of a system of organised apprenticeship for a period of four or five years with practical training in the workshop and theoretical instructions in attached institutions.

The next suggestion of the Commission has reference to the improvement of standard of comfort. The industrial workers have to live in insanitary **bustees** and this insanitary condition of the dwelling houses tells upon their health and strength. Efforts should be made for improving the dwelling houses of the industrial workers. The Government is advised to make use of its powers under the Land Acquisition Act to acquire lands and to lease out the land so acquired on better terms. The Commission appreciates the miserable conditions of the industrial labourers of Bombay and makes special recommendation for the improvement of their dwelling houses. A suggestion is made for general measures of welfare-work among factory labourers.

The Commission makes recommendation for the improvement of public health by launching campaigns against such diseases as Hookworm and Malaria.

Some suggestions have also been made by the Commission to remove the general aversion of the educated Indians to industrial pursuit. A complete revolution should be brought about in the method of industrial training so that the Indians will take interest in industrial enterprises. For the manipulative industries the method of training should be similar to that prescribed for training artisans. The Indians desirous of occupying the posts of foremen or engineers must serve a term of apprenticeship in the workshop. After this period of apprenticeship is over their practical training should be supplemented by theoretical instruction. When the course of theoretical instruction is complete they should be allowed to specialise in particular subject. In case of non-manipulative industries the training should be imparted mainly through teaching institutions. The Commission also recommends the establishment, in future, of two Imperial Colleges, one for engineering and the other for metallurgy. The Department of Industry should be vested with a power of general control over technical institutions in order that the intimate relation between the technical institutions and the world of industry may be maintained.

The Commission deals with the question of the supply of motive power which is an essential ingredient of success. A study of the character and quality of Indian coal shows that Indian coal is inferior to the coal of other countries in quality. Again, the extension of the metallurgical industry already started will reduce the supply of coal for industrial purposes to a very great extent. We cannot attach much importance to the oilfields of Burma inasmuch as they are being rapidly exploited. The wind power cannot be taken recourse to because it is too intermittent for the purpose.

The Commission suggests in the long run that greater importance is to be attached to the water-power and this can be depended upon as a more reliable source of energy specially with a view to the development of thermo-electric industries. A duty is, therefore, thrown upon the Government to undertake hydrographic survey in order to determine the places which offer greater opportunities for the establishment of hydro-electric installation.

The Government has been advised to give up its *Laissez faire* policy and take an active part in the improvemenf of Indian industries. There should be a re-organisation of the scattered scientific services in the provinces under the Imperial Service. The Government in this way will be in a position to estimate correctly the value of industrial proposition. Rules should be framed regulating the relations between the members of these Imperial Services and the private industrialists requiring advice from them.

The Commission appreciates the utility of up to date information on commerce and industries and suggests a scheme for the collection and publication of those information through the Department of Industry. A proposal has also been made for making over the task of purchasing Government Stores to the Department of Industry so that it may be possible for the Department to see that orders are not placed with the stores Department, India office, unless the stores are not available in India. The Commission speaks about the advisability of acquiring lands by the Government for industrial purposes and indicates the method by which the Government may render assistance to the industries. The Government should, according to the opinion of the Commission, undertake the manufacturing operation for the production of lethal munitions. The administration of the Boiler Acts, the mining rules, the Electricity Acts, employment of jail labour, prevention of adulteration and some other important matters are discussed thoroughly.

The Commission is of opinion that the compulsory registration of

partnerships is practicable and the Government should examine the problem in order that laws may be passed regulating such business.

The Commission discusses the difficulties that hamper the progress of the cottage industries and suggests industrial co-operation as a remedy. It is by means of co-operative organisations that the cottage industrialists and the small-scale producers will be in a position te reap some of the advantages that are derived by a large-scale producer. The Commission recommends an increase in the Railway rates for raw materials as they are conveyed to the ports for the purpose of exportation because this will have the effect of restricting the exports and increasing the supply of raw materials for the indigenous industries. Again, the railway rates on imports other than machinery and stores for industrial uses should be raised because such a policy would raise the prices of foreign commodities to the advantage of the domestic industries. A commerce member should be added to the Railway Board for the better representation of the interest of commerce and industry at the Railway Conference. A suggestion is also made for the improvemant of waterways and the constitution of a waterways Trust at Calcutta.

The Commission correctly realises the shyness of Indian capitalists and suggests that the proper remedy will be the extension of banking facilities in the mofussil so that the people of India may appreciate the utility of making investments of their humble stock of capital. A committee should be appointed to consider fully the problem of industrial banking ; but in the meantime the middle class industrialists should be favoured with credit on the guarantee of the Government. Among other methods of financial assistance it has been suggested that the cottage industries should be provided with plants on the hire-purchase system.

The position of India may be summed up in the following manner :—

(1) India has a large stock of raw materials and in consequence has a great prospect of industrial success.

(2) There is a lack of industrialisation and for this reason India is subject to foreign penetration in times of peace and to serious dangers in times of war.

(3) The human agents of production are inefficient and the capitalists are too shy to take risk boldly.

(4) The intelligensia have not yet developed a right tradition of industrialism.

(5) The Government should play an active part in developing the industries.

APPENDIX C

A Brief Summary of the Report of the Economic Enquiry Commitee

The Committee was appointed with Sir Visvesvaraya as chairman to examine the materials at present available for framing an estimate of the economic conditions of various classes of the people of British India, to report on its adequacy and to make recommendation as to the best manner in which it may be supplemented and as to lines on which general economic survey should be carried out with an estimate of the expenditure involved in giving effect to such recommendation.

The Committee divides the materials that are available at present and may enable us to study the economie conditions into three classes, viz., (*a*) General statistics other than production, (*b*) Statistics of production, (*c*) Estimate of income. Of these data the first may be said to be roughly complete, the second is partially complete and the third is unsatisfactory.

The Committee emphatically recommends an improvement in the general statistics other than production so as to make it as complete and accurate as the statistical system of other countries. The statistics of production should be framed with great care and caution. Care should be taken to include within the statistics of agricultural production the value of such production and the same procedure should be adopted in the collection of data relating to the production from forests, fisheries and other industries. The departments of Mining and Industry should be directed to frame an annual statistics of the mineral and industrial production including values thereof.

The economic conditions of the people cannot be properly determined unless enquiry is made into their incomes and wealth. An enquiry into the cost of living and the indebtedness of the people is also necessary. The Committee, therefore, recommends that the income-tax returns and wages and the rates of wages prevailing at different centres should be published. The collection of wholesale

and retail prices is also suggested because it may possibly give us an idea of the cost of living.

The Committee suggests the method of economic survey. Suggestion is also made of a double classification based on occupation and income. Care should be taken in collecting the figures of production through the Departments of the Government. The total value of such production should be determined and recorded. The departments of mining and industries should be held responsible for the collection of statistical figures relating to the mineral and industrial products including values thereof and the rates of wages prevailing in those centres. The same responsibility will be cast upon the Revenue Department for the collection of rural wages and prices.

The Committee recommends the centralisation and co-ordination of all statistical work and proposes the establishment of a Central Statistical Bureau to be presided over by a Director of Statistics. Under this Central Department there should be a Provincial Department in each province supervised by Provincial Statistician. There should be created district agencies and local agencies for facilitating the collection and compilation of statistics.

The Commission estimates the expenditure that will be incurred both by the Central Government and by the Provincial Governments in giving effect to the above recommendations and directs that the Central Government should bear half of the Provincial expenditure for a period of five years.

A minute of dissent has been submitted by A. R. Burnet Hurst regarding the following points :—

It is useless to enquire into the wealth and income of individual family.

The problem of unemployment among the middle classes and the influence of diseases on the health of the population should be the subject-matter of special enquiry.

The rate of wages and hours of labour should be secured quarterly from the factories. The Department of statistics should be reconstituted and the Labour Office, Bombay, should be expanded. A suggestion is made for the publication of an Official Year Book from British India by the Central Bureau.

APPENDIX D

A Brief Summary of the Report of the Royal Commission on Indian Currency and Finance (1913-14)

The Committee was appointed to enquire into the conditions of Indian Currency system and to suggest schemes for reforms.

The Committee is in favour of the continuance of the Gold-Exchange Standard which necessitates the establishment of stable rate of exchange between silver rupee and the sterling. The measures taken up by the Government to maintain the rate of exchange during Currency Crisis of 1907-8 yielded satisfactory results.

The Commission has no faith in the increased circulation of gold in India as recommended by the Currency Commission of 1898. The gold standard system can be maintained without the actual use of gold. The economic condition of India does not permit the use of gold coins nor should it be to the advantage of a poor country like India to encourage the use of gold in internal circulation. The best currency system for this poor country will be that which encourages the use of rupee and rupee-notes in the internal circulation. It is not at all necessary to establish a mint for the coinage of gold but the Committee adds that there is no objection against the establishment of such mint if the Indian sentiment genuinely demands it and the Government of India is ready to bear the incidental expenses of such mint. If such mint is not established the Bombay mints should be authorised to receive refined gold in exchange for local currency.

In order that the exchange value of the rupee with reference to sterling may be maintained an adequate reserve in gold or sterling should be preserved. There should be at present no limit to the Gold Standard Reserve. Attempt should be made to increase the gold portion of the Reserve. The gold portion can at once be increased to the extent of £10 million by the mutual exchange of assets between the Gold Standard Reserve and the Paper Currency Reserve. In this way the gold portion should be raised to £15 millions and after this the authority should attempt to keep one-half of the total reserve in gold.

The Commission recommends the abolition of the rupee portion of the gold standard reserve and the transfer of the rupees to the Paper Currency Reserve in exchange for gold. The entire Gold Standard Reserve should be kept in London.

The Reverse Councils should be sold by the Government whenever there is demand for them, at the fixed rate of 1*s*. $3\frac{29}{32}$*d*. per rupee.

Suggestions are made for making the system of note-issue more elastic. This can be easily done by increasing the fiduciary portion of the note issue. The Committee recommends that the fiduciary portion should be fixed at a maximum of the amount of notes held by the Government in the Reserve Treasuries plus one-third of the net circulation and the Government should be empowered to make temporary investments or loans from the fiduciary portion within the maximum in London and in India. The Committee also recommends the immediate universalisation of the 500 rupee note and the increase of facilities for the encashment of notes. The balances of the Government both in India and in London have been unusally large in recent years on account of exceptional prosperity of India and other accidental causes.

A suggestion is made for changing the date of the commencement of financial year from the 1st of April to 1st November or 1st January because such change will make it possible for the Government to frame the budget with greater accuracy and for the India office to fix the amount of borrowing in London with closer regard to immediate needs.

The Commission supports the policy of transferring revenue surplus to London in order to reduce or avoid fresh borrowing for capital expenditure.

The independent treasury system is condemned by the commission which attributes the stringency of the money market to such pernicious system. A recommendation is made for granting loans on good security to the Presidency Banks out of the surplus balance retained by the Government. The question whether the surplus balance should be transferred to the India Office or should be utilised in lending operation in India should be decided by means of a consultation between the Secretary of State and the Government of India.

The Committee recommends that the rupee loans of the Government should be increased as much as possible and that the existing regulation in regard to the endorsement on rupee paper should be relaxed. New forms of securities should also be created.

The Secretary of State sells council bills in order to provide himself with funds in London for meeting expenses of the Government of India there. Sometimes the council bills were sold at low rates

even when there was no deficit in the London balance. The Committee does not intend to place any restriction on the power of the Secretary of State to sell council bills either as to the amount of the drafts sold or as to the rate at which they should be sold provided the rate is within the gold point.

The Committee supports the practice of lending out the surplus balances at the India Office to the approved borrowers for a short period of time and does not find any reason for the criticism that has been advanced by the critics regarding the placing on deposit with certain banks a part of the balance at a time when it was too large to be placed entirely with approved borrowers. The Committee advises the Secretary of State to avoid such criticism as far as possible.

The Committee thinks that the time has arrived when the relation of the India office with the Bank of England should be reviewed.

The Committee entertains a favourable opinion as to the service rendered by the permanent staff both in India and in London in handling the complicated financial problem and recommends the continuance of Finance Committee of Council containing three members with financial experience representing—

(1) Indian Official Finance.

(2) Indian Banking and Commerce.

(3) The London money market.

The Committee recognises the advantages of the present arrangement in which there is an assistant Under-Secretary of State with Financial experience and recommends for the future that there should be one Under-Secretary with financial experience as at present or there should be two assistant Under-Secretaries of whom one should have official experience.

The Committee does not recommend the establishment of State Central Bank and leaves the problem to the consideration of an Expert Committee to be appointed for the purpose.

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APPENDIX E

A Brief Summary of the Report of the Committee of Indian Exchange and Currency (1920)

The Committee was appointed after the Great War was over with a view to suggesting schemes whereby the automatic working of the Currency system might be re-established. The Gold Exchange Standard broke down during the war because the Government failed to maintain the exchange rate. Various proposals such as that for reducing the fineness or weight of the rupee, for the issue of 2 or 3 rupee coin of lower proportional silver content than the present rupee and for the issue of nickel rupee were referred to the committee for consideration. The Committee, however, could not recommend any of these schemes but it appreciated the necessity of restoring stability to the rupee and of re-establishing the automatic working of the Indian Currency system. The Committee was in favour of the free circulation of 8 anna nickel coin and suggested that legal tender limit should be raised from Re. 1 to Rs. 5 or Rs. 10.

The Paper Currency system should be made more elastic but at the same time care should be taken to keep adequate reserve for ensuring the convertibility of note-issue.

The rise in the exchange value of the rupee had been to the advantage of the country as a whole in so far as it checked the rise in Indian prices and reduced the obligation of the Government of India to pay Home Charges. The stabilisation of the exchange rate at a high level, would not, as the Committee opined, cause any permanent injury to the traders and industrialists. It was not advisable to postpone the stablisation of the exchange rate and the balance of advantage was decidedly in favour of stabilisation. The question then arose as to the rate at which the Indian Exchange should be stabilised. The Committee proposed that Exchange rate should be stabilised at 2*s.* (gold). Suggestions were made of certain measures which should be adopted by the Government in case the value of silver rose for more than a brief period above the parity of 2*s.* (gold). The measures suggested were (a) reduction of sale of council bills, (b) abstention from purchase of silver, (c) use of gold to meet demands for metallic currency.

Ordinarily the council bills were sold for providing the Secretary of State with necessary funds for the payment of Home Charges. The Committee suggested that there could possibly be no objection against the sale of council bills in response to demand of trade provided the Secretary of State felt no inconvenience in so selling the bills in excess of his demand and due regard could be paid to principles governing the location of the reserves.

The Government of India should be given the authority of selling Reverse Councils during periods of exchange weakness at a price based upon the cost of shipping gold from India to London and no permission of the Secretary of State should be required for such sale.

The Committee was of opinion that the quantity of gold which India absorbed before the war, was not very large if we took into consideration the vast population of India and the social customs which forced them to use gold for ornamental purposes. Attempt should be made to encourage the use of gold for productive purposes. The Committee recommended the withdrawal of Government control in regard to the import and export of this precious metal to and from India.

The Government should provide the people with any sort of currency that they demand whether rupees, notes or gold ; but gold should be principally kept in Government Reserve so that it might be available during the time of making foreign remittances. Though it was not to the advantage of a poor country like India to encourage the use of gold for internal purposes yet a moderate use of gold would sometimes become necessary in order to meet the increased demand for currency when silver rupees would not be available in sufficient quantities to satisfy the increased demand.

The Bombay Branch of Royal Mint should be re-opened for the coinage of sovereigns and half sovereigns and the public should be allowed to have their gold bullion turned into coins. The Government should be freed from the responsibility of giving rupees for sovereigns. An opportunity should, however, be given to the public having sovereigns in their possession to present them for redemption at the rate of Rs. 15 per sovereign at the time of introducing the new ratio that was recommended. Similar opportunity should be given to the holders of gold mohar which should be eventually demonetised.

The prohibition on the import of silver and the import duty levied thereon should be removed but the prohibition on the export of silver from India should continue for a period of time in order to prevent the depletion of silver currency by export. Permission under

licence should, however, be granted in case the Government ceases to purchase the silver mines in India.

To promote the habit of investment the increased banking facilities and increased opportunities for the investment of savings should be afforded. No recommendation, however, was made for modifying the present practice of regulating the purchase of silver for coinage.

The Committee recommended the introduction of proportional Reserve System in order to make the system of currency more elastic. The minimum of metallic reserve to be kept against the notes should be 40 per cent of the gross circulation. With regard to the fiduciary portion of the Reserve the Committee suggested that the securities issued by the Government of India should be limited to Rs. 20 crores. The balance should consist of securities issued by other Governments within the British Empire and of these securities not more than Rs. 10 crores should have more than one year's maturity and all should be redeemable at a fixed rate. The remaining securities should be of not more than one year's maturity.

The existing permissive maximum should be retained for a limited period.

The adoption of the new rate of exchange would lead to the depreciation of the sterling investments and gold in the Paper Currency Reserve but the savings resulting from the rise in exchange would help greatly the discharging of this liability in a limited number of years.

In order to remove seasonal stringency in the money market authority should be given to the Currency Department to issue notes up to five crores as loans to the Presidency Banks on the security of export bills of exchange.

The Silver and Gold in the Paper Currency Reserve should be kept in India and every facility should be given for the encashment of notes as soon as the circumstances permitted.

The Committee suggested no limit to the Gold Standard Reserve recommended that the profits of the rupee coinage should be credited in their entirety to the Reserve. The Government should hold such gold as they obtain in the Paper Currency Reserve while the Gold Standard Reserve should consist of securities with earlier dates of maturity. The amount of securities in the reserve with a maturity exceeding three years should not be increased.

Some portion not exceeding one half of the gold in the Gold Standard Reserve should be kept in India while sterling investment should be retained in London.

APPENDIX F

The Brief Summary of the Report of the Royal Commission on Indian Currency and Finance (1926)

The Commission was appointed with Edward Hilton Young as its president to examine and report on the Indian Exchange and Currency system and practice, to consider whether any modification is desirable in the interests of India, and to make recommendation.

The Committee studied the existing currency system and made the following recommendations :—

(i) The internal currency in circulation should consist of silver rupee and currency notes : gold should not be allowed to circulate as currency but the stability of the currency in terms of gold should be maintained by making the currency directly convertible into gold.

(ii) In order that monetary stability might be secured the control of currency and credit should be vested in one institution and this could be possible, as the Commission recommended, if a Central Banking system was introduced.

(iii) The Central Banking functions should be entrusted to the Reserve Bank which was proposed to be established.

(iv) The Commission laid down rules as to the constitution and functions of such a Bank.

(v) The provisions of the charter should be so framed as to give effect to the recommendations of the Commission concerning such Bank.

(vi) The balance that would be left after payment of limited dividend and the constitution of suitable reserve funds should be made over to the Government.

(vii) The Bank should, like other Central Banks, be given the sole authority of issuing notes for a period of 25 years and the legal tender characteristic should be withdrawn from the Government notes within five years from the date of the charter becoming operative ; of course these notes should continue as legal tender in the Government Treasuries.

(viii) The notes issued by the Reserve Bank should be unlimited legal tender and should be guaranteed by the Government. A suggestion was made as to the form of the note that should be issued by the

Bank. This form should however be subject to the approval of the Government.

(ix) Upon the Reserve Bank should be thrown an obligation to purchase and sell gold without limit at rates determined with reference to a fixed gold parity of the rupee in quantities of not less than 400 fine ounces; no limitation should however be imposed as to the purposes for which gold is required. Gold would therefore be available both for external and internal purposes.

(x) In order that the Bank may not be involved in the performance of a task which does not belong to it to the destruction of wholesale bullion market, effort should be made to regulate the sale of gold in such a way that the Bank may be freed from the task of supplying gold for non-monetary purposes. In order to achieve that object the Committee proposed to fix the selling prices of gold at rates which would enable the bank to replenish its stock of gold without loss by importation from London.

(xi) The Committee was against the circulation of gold coins, and hence recommended the removal of legal tender quality from sovereigns and half-sovereigns. The Committee did not apprehend any practical inconvenience from this proposal because they, owing to the adoption of 2s. rate had already ceased to function as currency. Again, no undesirable consequences would follow from the demonetisation of the sovereign because the relation of the local Currency to gold would be firmly established by making it directly convertible into gold.

(xii) The Government should offer Savings Certificate redeemable in 3 or 5 years in legal tender money or gold at the option of the holder. Such a policy would, as the Committee opined, serve as an incentive to investment and a powerful antidote to hoarding and would at the same time impress upon the people the relation between gold and silver rupee.

(xiii) The Government should be freed from the legal responsibility of converting currency notes into silver coins because the existence of this obligation had in the past the effect of placing the currency system at the mercy of the price of silver. The Bank should, however, maintain the free exchangeability of different froms of legal tender currency and the Government should be under an obligation to supply coins to the Bank on demand.

(xiv) The Committee recommended that one rupee notes should be re-introduced and they should be unlimited legal tender. In this way a more valuable token money would profitably be substituted by paper money.

(xv) Notes of higher denominations should be legally convertible into legal tender money, i. e., into notes of smaller denominations or silver rupees at the option of the currency authority.

(xvi) The rupee should retain its legal tender character.

(xvii) There should be an amalgamation of the Gold Standard and the Paper Currency Reserves. The proportions and composition of the combined reserves should be fixed by statute. Such a provision was, as the Committee recommended, essential in order to secure the automatic expansion and contraction of the currency and the compensatory effect of the exchange in accordance with the needs of the country.

(xviii) The Committee recommended the introduction of proportional reserve system. Gold and gold securities should form not less than 40 per cent of the Reserve subject to a possible temporary reduction with the consent of the Government on payment of a tax. The currency authority should however attempt to work to a reserve ratio from 50 to 60 per cent. The gold portion of the reserve should be raised in view of the obligation of the currency authority in regard to the provision of gold and the redemption of saving certificate on maturity. The gold portion which stood at 12·8 per cent should be raised to 20 per cent as soon as possible and in any case, in not more than 5 years and to 25 per cent in 10 years with a minimum of Rs. 30 crores from the outset. One-half at least of this gold holding should be kept in India.

(xix) The silver portion of the Reserve should be substantially reduced during the transitional period of 10 years.

(xx) The balance of the Reserve should be held in self-liquidating trade bills and the securities of the Government of India. Attempt should be made to replace the created securities by marketable securities within 10 years.

(xxi) An arbitrary figure of Rs. 50 crores was fixed as the liability of the Government in respect of the convertibility of the rupee circulation. It was also recommended that an amount equal to one-fifth of the face value of any increase or decrease in the number of silver rupees in issue should be added to or subtracted from this liability and the balance of profit or loss should accrue to or be borne by the Government revenues.

(xxii) The Reserve Bank should have its two departments, the Issue Department and the Banking Department separated from each other.

(xxiii) The remittance transactions of the Government should be made over to the Reserve Bank. The Bank should be informed as to the requirements of the Secretary of State and should be allowed to employ such method or methods as would appear to be conducive to the smooth working of the system.

(xxiv) During the transition period the Government should publish weekly return of remittance made. A trial should be made of the system of purchase by public tender in India.

(xxv) The Committee made another important recommendation. This consisted in transferring the cash-balance of the Government of India and of the Secretary of State to the Reserve Bank. The banking reserves of the banking institutions should also be kept with the Reserve Bank which would occupy in India a position similar to that occupied in England by the Bank of England.

(xxvi) Such transfer of reserve should take place not later than 1st January, 1929 and the Bank's obligation to buy and sell gold should come into operation not later than 1st January, 1931.

(xvvii) The exchange value of the rupee should be stabilised at 1*s*. 6*d*.

(xxviii) The stamp duties on bills of exchange and cheques should be abolished.

(xxix) Steps should be taken to develop the banking system of India.

(xxx) Efforts should be made to remedy the deficiency in the existing body of statistical data.

A minute of dissent by Sir Purushottamdas Thakurdas :—Sir Purushottamdas signed the report subject to the following minute of dissent.

The Government of India has departed from the main principles of the policy laid down 27 years ago, accepted by the Government and still binding on them. Agitation have been made from time to time for the introduction of gold currency in India but the introduction of such currency has been postponed. Sir Purushottamdas is of opinion that the introduction of gold standard is necessary to inspire confidence in India.

Sir Purushottamdas differs from his colleague on two main points, namely on those relating to the formation of the Reserve Bank of India and the stabilisation of the rupee at 1*s*. 6*d*. He appreciates the utility of a Central Bank but is in favour of transforming the Imperial

Bank of India into a Central Bank. As regards the exchange rate he recommends the stabilisation at 1*s.* 4*d.* on the grounds that the greater part of the general adjustment of prices at 1*s.* 6*d.* is still to come, that no adjustment in wages has taken place and that until the general adjustment is complete 1*s.* 6*d.* rate will give the foreign manufacturer an indirect bounty of 12½ per cent.

APPENDIX G

A Brief Summary of the Report of the Royal Commission on Agriculture

The Royal Commission on Agriculture in India was appointed specially to examine and report on the condition of agriculture and rural economy in India and to suggest ways and means of assisting the advance of rural community towards a fuller life.

The Committee emphasises the utility of Agricultural Research and proposes that the Imperial Council of Agricultural Research should be constituted, the primary function of which would be to promote, guide and co-ordinate agricultural research throughout India. One of the important functions of the Council will be in regard to the training of research workers and part of its funds should be utilised in the provision of research scholarships tenable by students who have given evidence that they are capable of taking full advantage of the opportunity for intensive training in scientific research in agriculture.

As a link with the Central Research Council there should be established a Provincial Research Committee in each of the Major provinces which will work in close co-operation with the Council.

The principal concern of this Commission is to suggest the lines on which Agriculture in India can be improved. The agricultural lands in India are very remarkably deficient in agricultural properties. In some cases soils have deteriorated greatly in fertility. Little progress has been made in introducing manurial treatment into general agricultural practice. The Committee gives an account of the supply of manures in India and points out that the inadequacy of the supply

has been responsible for the failure of agricultural industry. The supply of farmyard manure and oil cakes which can be profitably utilised as manures is very insufficient. There are few other kinds of manures such as sulphate of ammonia, bones, bonemeal and fish manures but India has not been in a position to apply these manures profitably.

Proper care should be taken for the selection of seeds : for many years to come it seems probable that the work of selecting seeds will have to remain in the hands of Agricultural Department but if seed merchants of proved enterprise should be forthcoming they should be given every encouragement.

Agricultural engineering is an important section of the activities of Agricultural Department and it is one to which, in our opinion, sufficient attention has not in the past been devoted.

With regard to the fragmentation of soil which is an important obstacle to agricultural improvement the Committee lays down in paragraph 126 of the report the general principles which should be adopted in any legislation designed to promote the consolidation of holdings.

The Commission suggests that occular representation is the best method of convincing classes who are illiterate of the advantages of agricultural improvement. The Committee considers that short courses in particular subjects for cultivators given on demonstration and seed farms form an excellent means of establishing closer touch between the agricultural departments and the cultivators. The publication of vernacular leaflets is of little value unless they are issued in connection with a definite demonstration of their subject-matter. An interesting experiment has recently been made in Bengal and the Punjab. A demonstration train was fitted up as travelling exhibition by the Railway, public health, agriculture, industries, co-operative and Veterinary departments and carried out an extensive tour throughout the provinces.

The condition for the supply of agricultural cattle plays an important part in the development of agricultural industries. The two important factors in the cattle improvement are feeding and breeding. After an exhaustive survey of the possibilities the Committee is of opinion that no larger additions to the existing grazing areas are possible and efforts should therefore be concentrated on increasing the productivity of land already growing grass. As a supplement to or substitute for natural grazing the cutting and storage of dry grass is important. With regard to the improvement of cattle by careful breeding the aim should be to establish pure and improved types of the

best cattle now available and this should not be endangered by an attempt to produce a "dual purpose" animals suitable both for draught and for milking and *ghi* production.

Forests play an important part in agricultural development and for that reason are described as the hand-maiden of agriculture. Schemes should be devised for the improvement of grasses grown in the forest and for the encouragement of grass cutting in preference to grazing. The most promising method of establishing village forests is to hand over to village management certain more or less wooded areas now under the control of the Forest Department.

The Committee recommends for better provision of veterinary aid for the eradication of cattle diseases. There should be established in each district a Central Veterinary Hospital having accommodation for inpatients with a number of dispensaries serving subdivisions of the district. Better arrangement should be made for the training of Veterinary Surgeon.

The problem of Irrigation has been thoroughly dealt with by the Irrigation Commission of 1903. The irrigation policy has progressed on the lines laid down by the Commission. Irrigation is of chief importance in Sind, the Puniab, the North-West Frontier Province, Madras, the United Provinces and Bihar and Orissa. The Committee describes the prospects of irrigation in different provinces; in Bombay particular attention has recently been paid to this subject. The Committee is of opinion that much could be done to promote the development of minor works if the examples of Bombay Government were followed in other provinces.

The agricultural prosperity is intimately connected with improvement of means of communication. Such an improvement has the effect of extending the market. The matter is of such importance that the Committee recommends floatation of loans for this purpose rather than that expenditure should be met from current revenues. Liberal grants-in-aid should be given from Provincial revenue for the construction and improvement of village roads. Roads should be designed to serve rather as feeders to the railways than as competitors for traffic.

The Government has tried to improve the system of agricultural credit by the legislative enactments such as Land Improvement Act, 1883 and the Agriculturist's Loans Act of 1884. The Usurions Loans Act was amended in 1926 to enable a mortgager to take advantage of its provisions when suing for redemption. But the greatest hope for the salvation of the rural masses from their crushing burden of debt rests in the growth and spread of a healthy and well-organised co-

operative movement based upon the careful education and systematic training of the villagers themselves. The movement has made considerable progress and this is indicated by the fact that, in 1926-27 there were in British India some 67000 Agricultural Primary Societies with over two and a quarter million members and with a total working capital of nearly 25 crores of rupees. The Co-operative Society should be the unit through which the various departments of the Government concerned with rural welfare carry on their activities.

Adequate arrangement should be made for the primary education of the people. If the teaching is to be efficient the training of teacher must be improved. The progressive adoption of the compulsory system is the only means by which the unwillingness of parents to send their children to schools and to keep them there till literacy is attained may be removed. The Committee recommends the establishment of Schools of the Punjab type where agriculture is an optional subject in the curriculum of the ordinary Vernacular Middle Schools.

The Agricultural Colleges are considered as the Apex of the whole scheme of agricultural education. They should make their influence felt in all branches of rural education.

The development of certain industries such as those for the production of agricultural implements and the poultry industry should be encouraged. The development of village industries on a co-operative basis is essential if they are to survive increasing competition.

APPENDIX H

Report of the Taxation Enquiry Committee

In accordance with resolution passed at a conference between the Financial representatives of the Provincial and Central Governments this Committee was formed under the presidency of Sir Charles Todhunter with the following terms of reference :—

(a) To examine the manner in which the burden of taxation is at present distributed between the different classes of population.

(b) To consider whether the present system of taxation is equitable and in accordance with the economic principles.

(c) To report on the stability of alternative sources of taxation.

The Committee recorded oral and written evidence from nearly 300 witnesses and received contributions and memoranda from various public bodies including the Government of India, Local Governments and the Board of Revenue. After due consideration of these evidences and memoranda the Committee submitted its report which embodied the following main recommendations :—

(1) The standardisation of land revenue with a view to ultimate reduction of the proportion borne by land reveuue to total revenues.

(2) The basis of settlement should be the annual value and the standard rate should not exced 25 per cent of the annual value.

(3) Imposition of higher duties on liquors.

(4) Reduction of duty on sugar with a view to lower the burden of taxation upon the poor.

(5) Removal of the export duty on hide.

(6) Increase in the rate of income-tax when the income exceeds ten thousand rupees and reduction of the limit of Super-tax to thirty thousand rupees.

(7) A definite proportion of the receipt from income-tax should be transferred to the province.

(8) Increase in the excise duty on country-made sugar.

(9) The Committee studied the financial position of the local bodies and made the following recommendations for improving their position :—

(i) Conversion of the thathameda, the capitation tax and the chaukidari tax into sources of local revenue.

(ii) The Standardisation of land revenue in order to enable the local bodies to impose local taxes.

(iii) Empowering Municipalities to tax advertisements.

(iv) Increasing the scope of taxes on entertainment and betting and allowing local bodies to have a share of the proceeds.

(v) Realisation of a fee for registration of marriages.

(vi) Reduction of import duty on motor cars with the object of allowing the provincial Governments to impose a provincial tax to be distributed among local bodies.

APPENDIX I

A Summary of the Report of the Banking Enquiry Committee.

In 1929 the necessity of a comprehensive banking enquiry was keenly felt and as a result of this a central committee and ten provincial committees were set up with respective terms of reference. The Central Committee of which Sir B. N. Mitra was the Chirman, was asked to consider and make recommendations on the following questions, viz., (a) regulation of banking, (b) banking education, (c) industrial banks and credit facilities for the principal industries (cotton, jute and coal) and (d) financing of foreign trade. The provincial committees were concerned with agricultural credit, credit facilities for small industries, mortgage banks, financing of internal trade and methods of stimulating the habit of investment and attracting banking deposits.

Here we are concerned with the report of the Bengal Banking Enquiry Committee. The Committee estimated the rural indebtedness of Bengal at Rs. 93 crores and opined that long-term credit was necessary to give relief to the poor peasants. The Commissioners recommended that the provision for long-term credit could be made if the Central Banks should open up land-mortgage department. The Committee examined the condition of the infant industries and recomended legislation on the basis of State-aid-to Industries Acts passed in Madras, Bihar and Orissa.

The absence of organised market for agricultural products drew the attention of the Commissioners and they advised the creation of such organised market by the establishment of licensed wirehouse. A scheme for training, examining and certifying measures and graders was also recommended.

The Committee took note of the existing loan offices and suggested an amalgamation of these offices so as to form bigger institutions.

As regards the joint-stock banks the Commissioners recommended the half-yearly publication of balance sheet. Among other recommendations there were recommendations in connection with the establishment of a Central Bank, abolition of Stamp Duty on bills of exchange and registration of professional money-lenders.

With regard to agricultural indebtedness of India the Commissioners recommended the wide extension of co-operative movement and the setting up of an organisation through which the risks of agriculture might be distributed.

APPENDIX J

A Brief Summary of the Report of the Royal Commission on Labour in India.

The Commission on labour was appointed on the 4th July, 1929 to enquire into and report on the existing conditions of labour in industrial undertaking and plantations in British India on the health, efficiency and standard of living of the workers, and on the relations between the employers and the employed and to make recommendation. Mr. J. H. Whiteley was the Chairman of the Commission. The report of this Commission contains numerous recommendations which cannot possibly be stated here. Here we shall summarize the important recommendations only.

Chapter II deals with the migration of factory workers. The Commissioners recommended that attempt should be made to maintain the connection of the factory workers with the village and to regularise it as far as possible.

Chapter III deals with the employment of factory workers; the Commissioners made the following recommendations :—

(1) The system of employing and dimissing workers through jobbers should be abolished. These functions should be vested either in a labour officer or in the absence of such labour officer, in the manager or in some other responsible officer. (2) The employers' association should be entertained under definite conditions. (3) Efforts should be made by the employers and by the municipalities for improving the education of the workers and their children.

Chapter IV discusses the hours of labour in factories and contains the following recommendations :—

(1) The weekly limit of the hours of work in case of perennial factories should be reduced to 54 and the daily limit to 10. (2) The statutory interval should not ordinarily be less than an hour in the aggregate. (3) The spread-over should not exceed 13 in the case of adult persons and $7\frac{1}{2}$ in the case of children. The rest period should include hours between 7 P.M. and 5-30 A.M. for children and 10 P.M. and 5 A.M. for women. The maximum daily hours for children should be limited to 5. (4) A week of 60 hours should be a limit to be exceeded only in most exceptional cases.

Chapter V: The Commissioners made the following recommendations regarding the conditions of labourers in factories :—

(1) The rules under Sec. 37 of the Factories Act which require factories to be cleaned annually should be enforced in all cases. (2) The Factories should be required to make separate and sufficient latrine accommodation for males and females. (3) The provision of water and places for washing should be obligatory for workers in dirty processes. (4) Subordination of Inspectors of factories to Directors of Industries is undesirable. (5) Women factory inspectors are desirable in every province.

Chapter VI and Chapter VII deal respectively with seasonal factories and unregulated factories.

In Chapter IX the Commissioners made the following recommendations regarding miners :—

(1) In the Manganese mines steps should be taken to apprise the workers of the repeal of the workmen's breach of Contract Act. (2) The coal industry should aim at eliminating recruiting cost. (3) The direct working should substitute the raising contract. (4) A labour officer should be appointed in each mine. (5) Wages should not be paid on rest day. (6) Weekly hours above ground should be limited to 54. (7) No child under the age of 14 years should be permitted to work in or about the mines. (8) Workers should have the same number of nominees on the Mining Board as employers. (9) Compulsory primary education should be introduced among the workers. (10) There should be a resident medical officer at Giridih.

Chapter X deals with the Railways. The important recommendations made by the Commissioners may be summarised thus :—

(1) Appointments and dismissals of workers in the Engineering Department should be entered in a register. (2) The system of Selection Boards should be introduced for selecting shunters, drivers and fireman. (3) Sons and near relatives of railway servants should have a special claim to enter the service. (4) The system of recruitment in the mechanical workshops through labour-bureau should be encouraged. (5) In case a worker is declared medically unfit for a particular post, every effort should be made to find for him other work. (6) Steps should be taken for the progressive elimination of any form of racial discrimi-

nation with regard to appointment and promotion. (7) Steps should be taken to fix standard rates for similar classes and grades with due reference to the economic condition of the district. (8) Employees drawing Rs. 20 or over per month should be compelled to contribute to provident fund. (9) Except in case of emergency all continuous workers should enjoy weekly rest of not less than 24 hours. (10) District or Divisional officers should have the power of terminating service. (11) A confirmed employee when charged with an offence should be given a charge sheet returnable within 7 days. (12) A more generous policy in respect of recognition of trade unions is desirable. (13) A Joint Standing Central Board consisting of representatives of the agents, and workers elected by the Indian Railway Conference Association and All-India Railwaymen's Federation should be charged with the consideration and settlement of reference from Railway Councils and certain general questions common to all railways. (14) A Central Board should consider the constitution and function of the various bodies. (15) The medical department should have charge of health and sanitation.

The Commissioners also made several recommendations concerning Transport services and public works :—

(1) The licence granted under Sec. 24 of the Indian Shipping Act should not be renewed. (2) Local Government should be empowered by law to frame safety Regulation for docks. (3) The practice of nominating a representative of labour on Port Trusts should be extended to all major ports. (4) The Tramway Companies should restrict working hours to 54 a week.

While dealing with the Income of Industrial workers the Commissioners made the following recommendations :—

(1) Before the minimum wage-fixing machinery can be set up the condition of industries should be investigated and if such investigation shows the necessity of minimum wage-fixing machinery legislation should be made for setting up such machinery. (2) Legislation regarding deduction from wages of fines is necessary and desirable. (3) A general policy should be adopted for restricting the facilities for the sale of liquor in all cities and industrial centres.

On the question of Indebtedness the following recommendations were made :—

(1) The co-operative credit organisations should be developed among workers. (2) The salary and wages of workmen receiving less than Rs. 300 per month should be exempted from attachment. (3) Worker's contributions to the provident funds maintained by employers and certified by the Government should be free from attachment. (4) Employers should adopt a system of weekly payment. (5) In textile industries, railway and engineering workshops and iron-steel works the operatives should get their wages at intervals not exceeding 16 days.

With regard to the problem of Health and Welfare of the industrial workers the Commission recommended as follows :—

(1) India should maintain an institute of Nutrition with a Director and sufficient number of qualified assistants. (2) Industrial health research should be entrusted to the Indian Research Fund Association. (3) Comprehensive Public Health Acts should be passed in all provinces. (4) Care should be taken to supply pure water to the workers. (5) The Railway administration and the provincial health department should try their utmost for the prevention of malaria. (6) Maternity benefit legislation should be enacted on the lines of the scheme which is in vogue in Bombay and Central provinces.

The Commission made the following recommendations in connection with Housing of industrial workers :—

(1) Small blocks of two or more rooms in partitioned units with windows and roof ventilation should be used extensively. (2) Bathing, washing houses and latrines of approved types should be built near each block. (2) The government should announce their willingness to subsidise employer's housing scheme approved by them. (4) Co-operative building societies should be encouraged.

On the topic of workmen's Compensation the Commission made the following recommendations :—

(1) The scope of the **Workmen's Compensation Act** should be extended. (2) The minimum compensation for death in the case of adults should be Rs. 600 and for complete permanent disablement Rs. 840.

In Chapter XVII, which deals with Trade Unions we find the following important recommendations :—

(1) Recognition should mean that a union has the right to negotiate with the employers in respect of matters affecting either the common or individual interest of its members. (2) Union leaders should endeavour to give as many members as possible some share in the work of the union. (3) All unions should be able to have their account audited by public officers free of charge. (4) A registered trade union should have the right to initiate and conduct co-operative credit and supply societies.

Chapter XVIII contains recommendations concerning Industrial Disputes :—

(1) The employers should co-operate with the trade union for the establishment of works committees. The management should be in sympathy with the development of such committees. (2) Some statutory machinery will be necessary in order to deal with industrial disputes. (3) Sec. 13 of the Trade Dispute Act should be amended and every Provincial Government should have an officer whose duty it would be to undertake the work of conciliation.

With regard to the Plantation the following recommendations were made by the Commission :—

(1) No further legislation is necessary to make breach of contract of service a criminal offence. (2) Prohibition regarding recruitment for Assam in particular localities should be withdrawn. (3) Necessary control should be exercised over the forwarding of recruits to the Assam plantations. (4) The Government of India should have the right to frame rules regarding transit arrangements. (5) There should be a Protector of immigrants in Assam appointed by the Government to look into the interest of immigrants. (6) The tea industry should give publicity to the advantage which plantations have to offer to the inhabitants of the provinces. (7) Future emigrants should have the right to repatriate at the expense of the employer after the first three years. (8) The establishment of a statutory wage-fixing machinery in the Assam plantation, if practicable is desirable. (9) Wages should be paid direct to the worker and not through the Sardar. (10) All plantation managers should take active measures in regard to anti-malarial work.

(11) Tubewell should be constructed where necessary. (12) Adequate latrine accommodation should be required in factories on plantations. (13) Employment of children before the age of ten should be prohibited. (14) A Board of health and welfare should be established for convenient planting areas.

In the chapter on Statistics and Administration we find the following important recommendations :—

(1) Statistics should be compiled separately in respect of perennial and seasonal factories. (2) The Factories Act should be amended so as to make it possible to call for returns in respect of wages. (3) Planters in all provinces should be compelled by statute to give statistics relating to the labour forces employed by them. (4) The University should consider the possibility of making enquiries into labour condition as a necessary part of the study of Economics. (5) A Labour Commissioner should be appointed in every province except Assam. He should be responsible for the administration of all labour subjects and for the publication of labour statistics.

In the last chapter the following Important recommendations are found :—

(1) The provincial legislation regarding labour should not interfere with the Central legislation. (2) Labour should have adequate representation in the central and provincial legislatures. (3) Election by trade unions should be the best method for securing representatives. (4) The future constitution should provide for an industrial council where the representatives of labour and employers should meet to discuss labour problems. (4) The possibility making labour legislation both a federal and provincial subject should receive consideration.

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NEW APPENDIX

(For Recent Topics)

I. Damodar Valley Multipurpose Scheme.

The Damodar Valley Scheme represents a notable Engineering Scheme undertaken by the Damodar Valley Corporation set up in 1948. It is a multipurpose scheme devised for the purpose of controlling flood, supplying water for irrigation and supplying hydro-electric and thermal powers. The scheme involves the construction of eight dams and a barrage across the Damodar River. The Tilaiya Dam which will serve the Hazaribagh District stands first in order of construction. The second dam is the Maithon Dam across the Barakar river. The construction of these dams will add to the prosperity of the Damodar basin by irrigating 800,000 acres. It will bring benefit to 500,000 people in the valley and another 2,500,000 people in the adjacent towns including Calcutta. The preliminary work in regard to this scheme will involve an expenditure of Rs. 55 crores.

II. The Mahanadi Valley Scheme (Orrisa) : Thungabhadra Dam project (Madras) : Kosi Dam project.

The first scheme consists in erecting three Dams, one of which is already under construction on the Mahanadi river at an estimated expenditure of Rs. 16 crores. This is known as Herakund Dam. It will serve the province of Orrisa by irrigating about 800,000 acres and generating 30,00,000 k.w. of electricity. It will prevent flood in the coastal regions and facilitate shipping to a certain extent.

Another notable scheme is the Thungabhadra Dam scheme in Madras. It was inaugurated in 1945. Excavation of canals is in progress. This Dam when completed will bring immense benefit to Madras.

Kosi Dam project is another scheme which has been designed to serve Nepal and Bihar. It will be erected on the Kosi River. When completed it is expected to irrigate about three million acres in Nepal and Bihar, generate 1·8 million k.w. of electricity and help the production of extra food crops worth Rs. 5 crores.

III. Some New facts of Indian Agriculture.

87% of the total population of India live in rural areas ; out of this rural population about 66% is directly engaged in agriculture.

India commands a huge area of 360 million acres under different kinds of crops. The area under food crops per capita is ·72 acres. India produces one-third of the rice production of the world. The total production of food grains falls short of India's needs by about a tenth. Production of food grains has failed to keep pace with the increasing population of India.

India ranks first among the world's tobacco producers, but the tobacco produced is generally not of superior quality.

IV. Some outstanding facts about Indian minerals.

India contributes about 75% of the total supply of mica. Better quality of mica sheet comes from Bihar. India contributes mainly to the world's supply of limenite, manganese, monazite and zircon. India's iron ore has the highest metal content and for this reason the production cost of pig iron is the lowest in the world.

India commands the largest reserves of iron ores of which she is the largest producer in the British Commonwealth and stands ninth in the world.

India's iron contains 60% of steel which is one of the highest in the world and is equalled only by Norway.

India possesses sufficient materials for the production of cement.

V. Relative position of the Indian Union and Pakistan in the spheres of Agriculture, Minerals and Industries.

In the sphere of agriculture Pakistan is decidedly at an advantage. The principal agricultural produce of Pakistan consists of rice, wheat, cotton, tobacco and jute. Jute is more or less a monopoly in Pakistan which produces as much as 73 percent of the total Indian jute. In the production of long and medium staple West Punjab and Sind in Pakistan occupies an enviable position. Rice is mainly produced in Eastern Pakistan while the production of wheat finds encouragement in the western zone. Pakistan can afford to export some portion of food crops after feeding its own people. The jute of Pakistan cannot be consumed within the Dominion and must find an external market in view of the absence of jute mills in the Dominion.

The production of sugarcane is confined to West Punjab and Eastern Pakistan and falls far short of the total internal demand.

Pakistan shows inherent deficiency in the production of millets, tea and coffee.

Production of tobacco is confined to Rangpur, Dinajpur and Chittagong Hill tracts. Tea is produced in Sylhet, Chittagong and Tippera. In the matter of irrigation the Western Pakistan claims a unique position. The richest canal colonies of Asia are situated in the West Punjab and in Sind we find the Sukkar Barrage which represents the highest achievement in the sphere of irrigation in the world.

Pakistan is very poor in mineral resources. It has only a negligible share in the production of mica and coal. Tertiary coal which represents only 1·83 per cent of the entire coal resources of undivided India is to be found in Baluchistan and West Punjab. Pakistan has thus to depend upon foreign countries for the supply of coal. Pakistan has no share in the iron resources. Complete dependence upon foreign countries for the supply of these two important metals stands in the way of industrial progress of this Dominion. Again, this Dominion has no contribution in the production of manganese. The petroleum resources of this Dominion are confined to the fields of Karur in the West Punjab and Dhulian. The Dominion, however, occupies a favourable position in the production of chromite and gypsum. Chromite is to be found in Hindubagh in Beluchistan while gypsum is available in Kohat, North-West Frontier Province and West Punjab. In the production of salt the contribution of Pakistan is considerable in view of the well-known salt range in Kohat. The share of Pakistan in the industries is too small for the area comprised therein. All the jute mills have been localised in West Bengal and Pakistan has got to supply these mills with raw jute. The iron and steel industry finds no scope for development in this Dominion. The paper mills do not exist in this Dominion. Although Pakistan produces the best cotton, the cotton mills have not made headway in this Dominion. There are only 11 Sugar mills out of a total number of 153 in the undivided India. Pakistan has only three cement factories as against 16 in the Indian Dominion. A large supply of hides and skins in Pakistan gives scope for the development of tannery but tannery is still in its infancy there. In the matter of other minor industries like soap, glass, chemicals, match and silk Pakistan has hardly attained any remarkable success.

The Dominion has attained considerable progress in carpet and mat-making and in the production of articles of sports. Woollen industry finds immense facility for development in this Dominion. Baluchistan produces a large quantity of date, some portion of which is available for export. The main exports of Pakistan are rice, wheat, jute, tea, tobacco, hides and skins.

VI. Division of Railways between Indian Union and Pakistan.

With the division of India into two Dominions—Indian Union and Pakistan—the then existing Railway lines comprising 40,524 miles were split up into two portions. Pakistan got only 6,659 miles of railway lines and the rest fell to the share of the Indian Dominion. After the above divisions the railways in India have been grouped under the following systems :—

(a) *Assam Railway* :—

This system represents the Metre Gauge line traversing the

north of Brahmaputra valley within the Indian union. It has its headquarter at Pandu in Assam.

(*b*) *Eastern Bengal Railway* :—

This system comprises (i) the portion of Broad Gauge section from Darsana northwards upto Siliguri on the mainline with different branches extending upto Goalundo, Faridpur, Bhatiapara Ghat, Raita, Sirajgung and Amnura; (ii) Broad Gauge portion from Bongaon Jn. to Khulna; (iii) the entire metre Gauge section to the east of Santahar and Parbatipur within the new province of Eastern Pakistan; (iv) Metre Gauge Section to the west of Parbatipur upto Radhikapur (exclusive) including Ruhea Branch; (v) Khulna-Bagerhat Light Railway. This system is known as the newly constituted Eastern Bengal with headquarters at Chittagong.

(*c*) *East Indian Railway* :—

This comprises the railway lines lying (i) to the south of the point between Banpur and Darsana on the main line with branches known as Ranaghat-Lalgolaghat—Santipur and Ranaghat—Santipur-Nabadwip Ghat; (ii) to the south of a point between Bongaon and Benapol in Calcutta-Khulna section and Bongaon—Ranaghat section; (iii) the entire southern section including Sealdah—Diamond Harbour, Lakshmikantpur, Canning, Budge-Budge Branches. These portions will be known as Sealdah Division with headquarters at Sealdah.

(*d*) *Oudh-Tirhut Railway* :—

This system comprises Katihar-Radhikapur with Kishanganj Branch, Katihar—Godagari Section, Katihar—Jogbani section, Katihar—Manihari ghat Section.

(*e*) *North-Western Railway* :—

This system falls partly within the Indian Dominion and partly within Pakistan. Portion falling within Pakistan will continue to be known as N. W. R.

(*f*) *Eastern Punjab Railway* :—

This comprises a portion of North-Western Railway falling within the Indian Dominion and the Delhi and Ferozepur Division.

(*g*) *Jodhpur Railway* :—

This system has been partitioned. The line falling within Pakistan has been included in the Pakistan Railway.

VII. National Highways.

The National Highways mean and include all the highways

running through the length and breadth of India and connecting major ports, foreign highways, industrial areas, large towns, cities and capitals of provinces and major states as well as roads required for strategic movements for the defence of India. With effect from April, 1947 the Government of India has assumed complete financial responsibility for the construction of these roads subject to certain conditions specified.

The National Highways plan after the partition of India has been fixed approximately at a mileage of 14,000 miles.

VIII. Ship-building.

Ship-bullding deserves encouragement. The building of medium-sized ocean-going vessels has been undertaken at Vizagapatam. The first 8000 tonner produced in this yard is the Jala Usha launched in March, 1948. Government of India has decided to form Shipping Corporations for the expansion of Indian shipping and its participation in overseas trade. One such Corporation will be under the management of Scindia Steam Navigation Co. Ltd.

IX. Air Service.

There are now 23 Indian Companies with an authorised capital of 422 crores. Of these nine operate 38 Schedule Air Services, internal and external on 23 routes covering 13,675 route miles employing 191 aircrafts, 229 pilots and 140 other air crew personnel. The total number of aircrafts registered upto June 1948 is 614 as compared with 551 at the end of December 1947.

The Government of India has launched a 10-year programme for the development of Civil aviation in the country involving an expenditure of Rs 54 crores out of which Rs. 5 crores have been allotted for the development of these international airports viz. Santa Cruz in Bombay, Dum Dum in Calcutta and Palan in Delhi.

X. People and their Education :

In 1948 the estimated population of the Indian Union stood at 337 millions. The total population of Pakistan is about 65·6 millions. These people of India as well as of Pakistan are mostly illiterate. In Bengal the literate population covers only 16·1 per cent of the total population. Travancore takes the highest place in respect of literacy and contains a literate population which covers 41·7 per cent. To remove this darkness of illiteracy is one of the knotty problems which deserve immediate solution. At present there is no system of primary education in most parts of India, though the number of rural and urban schools is slowly increasing. Education still remains a provincial subject and primary schools are run by Local Boards and Municipalities. In recent times some provincial governments have introduced compulsory primary education by passing Primary Education Acts.

Since August, 1947 a separate Ministry of Education has been formed in the centre under a Minister of Education who is aided by an Educational Adviser on all educational matters. This Ministry has set up a number of Committees with a view to working out schemes for educational development in India. The most important task of the Ministry is to wipe out illiteracy of the people of India. The All-India Educational Conference held in 1948 recommended the introduction of compulsory basic education for the age-group 6 to 11 in the first instance to be extended later on to children between 11 and 14 years.

A scheme of adult education has been recommended by the Adult Education Committee set up by the Central Advisory Board. The responsibility for financing the scheme lies with the Central and Provincial governments in equal shares. The Government of India has accepted the principle that a child should be instructed at the early stage through the medium of the mother-tongue. The Government of India have decided to establish within the first quinquennium commencing from 1947 two higher technical institutions, one to be located at North Kurla near Bombay and the other at Hijli in West Bengal.

In pursuance of the recommendation of the All-India Council for technical education the Government of India has sanctioned the grant of 1·5 crores of capital expenditure and Rs. 30 lakhs of recurring expenditure to some higher technical institutions in the country.

XI. New move towards Industry.

Nationalisation of industries has been recognised to be the ultimate objective of the Government of India, but for certain unavoidable reasons the Government of India has found it advisable to restrict nationalisation and allow for next 10 years an orderly and sound development of private industry.

The Government of India appreciated fully the urgency of rapid industrialisation of India and set up in 1948 a Central Advisory Council of Industries to assist the Government in securing the maximum increase of industrial production and to advise on specific problems of industry. In the self-same year the Cottage Industry Board was also constituted to advise and assist the Government on the organisation and development of cottage and small-scale industries.

The Council of Scientific and Industrial Research has been constituted with the object of popularizing the application of science to industry. Under the control of this council there exists the Industrial Liaison Committee whose chief function consists in keeping in constant touch with the industries on matters relating to the utilisation of the results of the researches.

With a view to providing the industries with necessary finance the Industrial Finance Corporation has been established by the Act passed in 1948, jointly owned by Government, the Reserve Bank, Scheduled Banks, Insurance Companies and other institutional investors.

XII. Military Expenditure.

With the attainment of freedom the Defence Department of Government of India has come under the full control and responsibility of the Ministry of Defence. Burdened with this onerous responsibilities, this Ministry of Defence has taken up the matter of defence in right earnest and has already set forth a heavy programme for developing and re-organising the Defence Services. This complete Indianisation has gone a great way in reducing the normal military expenditure, but the defence expenditure in 1948-49 is substantially higher than that in 1947-48. This is because the Government of India had to set up certain new establishments with a view to strengthening the Indian Army and Navy.

XIII. The Banking Companies Act of 1948.

This Act has been passed with a view to bringing certain reforms in the organisation of banks of India. The main features of the Act include :—(*i*) Abolition of the Managing Agency System ;

(*ii*) Prohibition of trading by banks ;

(*iii*) Ban on holding of immoveable property ; (*iv*) Requirements as to the minimum paid-up Capital and Reserves.

(*v*) Restriction on commission brokerage on sales of shares ; (*vi*) Extension of the right of the Reserve Bank in regard to supervision of the affairs of the Banks.

XIV. The New Reserve Bank of India.

The Reserve Bank of India as constituted by the Reserve Bank of India Act, 1934 was nationalized by an Act of the Indian Parliament passed on 3rd September, 1948. The shareholders were paid the value of their shares in 3% Government Stock redeemable in 1970-75.

Section 3 of the Reserve Bank of India Act has been amended with a view to enabling the Reserve Bank to hold as a cover for the currency notes, currency of any country which is a member of the International Monetary Fund.

XV. Recent Labour Legislation

The factories Act of 1934 has been amended by Factories Act of 1948. This Act insists on provisions for safety, health and welfare of workers employed in any factory. The scope of the Act extends to all factories where ten or more persons are employed and power

is used as well to factories which use no power and employ 20 or more persons.

The Act makes provisions for holidays with pay, and require, plans for factory buildings to be submitted for previous approval.

In 1948 Coal Mines Provident Fund and Bonus Scheme Act was passed. ' This Act provided for the introduction of a compulsory Provident Fund and Bonus Scheme for the benefit of coal miners.

Another important enactment was the Minimum Wages Act of 1948 which empowers the Provincial or Central Government to fix minimum rates of wages in respect of Scheduled employments after due enquiries. In the same year Employees State Insurance Act was passed. This Act provides for certain benefits in the shape of medical treatment, cash sickness benefit, maternity benefit, disablement benefit. Employees State Insurance Corporation was inaugurated in 1948.

The Industrial Disputes Act was passed in 1947. This Act provides for the constitution of works committee, reference to industrial tribunal, appointment of conciliation officer, establishment of Court of Enquiry, Prohibition of Strikes and Lockouts in Public Utility Service except after six weeks' notice and prohibition of Strikes and Lockouts during the proceedings before a tribunal and two months after conclusion of such proceedings.

XVI. Public Debt.

The Public Debt of India stood at Rs. 2182 crores at the end of 1947-48. Th sterling debts declined from Rs. 36'61 crores to Rs 30'28 crores.

XVII. Recent trends in Prices : Government's efforts towards. Price-control.

In the post-war period the prices of commodities show an upward movement. The Index numbers of wholesale price exhibit a substantial rise over the basic period of 1939. In 1947-48 the index numbers of agricultural commodities stood at 356'9 and the General Index stood at 307. This tremendous rise may be attributed to the following causes.

(1) Decrease in the output of agricultural and manufacturing industries.

(2) Restriction on imports due to the gap in India's external payments.

(3) Inflationary policy of Government.

(4) Rise in wages and salaries.

(5) The System of Control causing relative scarcity in the supply of commodities.

With a view to checking inflation the Government of India has

adopted the following four broad principles of its anti-inflationary policy :—

(*a*) to lower Government expenditure and increase its revenue, (*b*) to check further rise in prices and cost of living, (*c*) to secure in the shortest possible time progressive reduction of prices to reasonable levels, (*d*) to try to curtail the purchasing power in the hands of the community.

With a view to attaining the above objectives the Government promulgated an ordinance to stop refund of Excess Profit Tax for 3 years except for capital equipment. The Government announced a scheme to issue treasury deposit receipts to banks on their own or constituents' behalf.

XVIII. New Agreement in regard to Sterling Balances.

The following three-year agreement was entered into between India and the United Kingdom in regard to the Sterling Balances :—

India will pay to U. K. on behalf of India and Pakistan £100,000,000 (Rs. 133·3 crores) in respect of defence stores and fixed assets taken over by the Government of India, while U. K. will pay £55,000,000 in cash to India and Pakistan in settlement of her liability under the Indian Defence Expenditure Plan.

India and Pakistan will pay out of their sterling balances £176,250,000 as a capital sum to purchase an annuity which will cover their respective liabilities for pensions payable to the retired military and civil servants. Pakistan will purchase a separate annuity against a capital sum of £800,000 in order to meet its share of the liability for pensions payable to officers who served in the provinces included within the Dominions.

India has agreed to limit her hard currency expenditure to £15,000,000 drawn from the Sterling Reserves.

XIX. Indo-Pakistan Trade Agreements.

After the partition of India into two Dominions some sort of tradal relation between the two Dominions has been found essential for their mutual welfare and convenience. To establish such relationship several agreements have been entered into. The Indo-Pakistan Food Agreements dated Jan. 21, March, 24, and July, 30 deserve discussion. By the January Agreement Pakistan agreed to supply 49000 tons of rice to India. The March Agreement provided for the barter of 20,180 tons of rice from West Pakistan in exchange for the imported Australian wheat 9030 tons, maize 12000 tons and Argentine barley 1500 tons. The May Agreement exhibits an undertaking on the part of Pakistan to supply 175000 tons of food grains within the year ending August 31, 1949. Under the July Agreement India agreed to barter 4000 tons of imported wheat and 10500 tons of gram with 11000 tons of seed wheat from Pakistan.

By the same agreement West Pakistan agreed to deliver to India 6500 tons of rice in exchange for the latter's undertaking to deliver the same amount of Burma rice to Eastern Pakistan.

There is one more Agreement which deserves treatment. This is the Karachi Agreement by which each Dominion undertook to make available to the other between July 1, 1948 and June 30, 1949 certain commodities in certain quantities. India on her part was to limit her export of raw jute to 900,000 bales of the usual Indian varieties. India also agreed to supply Pakistan 183,000 tons of coal per month, 15,000 tons of steel, 6,000 tons of corrugated iron sheets, 4,000 tons of pig iron per quarter, 6,000 tons of paper, 1,500 tons of board, 270 tons of hydrochloric acid, 200 tons of nitric acid, 800 tons of magnesium sulphate, 2500 tons of groundnut oil, 22,000 tons of soap and 700,000 lbs of tobacco. In exchange for the above commodities Pakistan agreed to supply to India 50 lakh bales of raw jutes, 30 lakh pieces of cow and buff hides, 15 lakh pieces of skins, 20 lakh mds. of rock salt, 5,000 tons of potassium nitrate and 550 heads of cattle.

By Agreement of Sept. 28 the two Dominions exempted certain goods from the operation of import and export control.

XX. Food Problem and Government activity.

The problem of food supply is the most intricate problem that demands immediate solution. The supply of food is quite insufficient to meet the extensive demand within the Indian Union. The situation has been aggravated by the influx of population from Pakistan. The import of food-stuff from abroad cannot meet the entire deficit in view of the world-wide deficiency. Nevertheless, the National Government of India has tried to augment the import by tapping all possible sources in foreign countries. Australian wheat has been imported in large quantities. The system of Rationing has been maintained in major industrial areas and surplus areas within the countries have been carefully determined with a view to regulating purchase from those areas. Serious attempts are being made to increase the internal supply by improving the productivity of the soil and by extending cultivation to waste lands. Agricultural planning should have this object in view.

The Food-Grains policy Committee has been set up to determine the true line of action. This committee has already submitted a number of recommendations in the following lines ;

(*a*) Introduction of multi-purpose Irrigation projects.

(*b*) Establishment of Board of Agricultural planning, both at the centre and in the provinces.

(*c*) Organisation for Reclamation of Waste land. The National Government of India has taken up the cause of agriculture in right earnest. Several Irrigation schemes have been already launched and

arrangement has been made for financing these schemes. The Provincial Governments have already made a survey of all reclaimable lands. The necessary financial assistance is to be obtained from the International Bank of Reconstruction and Development.

In a conference of the Directors of Agriculture it has been decided to make arrangement for the speedy supply of seeds and manures and deisel oil required for agricultural purposes. It has also been agreed that private initiative in the matter of reclamation of waste land should be encouraged by exempting those lands from the payment of revenue. Another proposal consists in reducing the area under cultivation of sugarcane by 10 per cent and the application of the said area to the cultivation of food crops.

In view of the immense possibilities of increasing the internal supply of food stuff, the Food Minister of India was not too optimistic when he announced in March 1949 that after 1951 no food stuff would be imported from foreign countries except in case of failure of food crops and necessity for building up central Reserves. But unless serious attempts are made to improve the situation India will have to import food stuff for many years to come.

XXI. The Industrial Finance Corporation of 1948.

In view of the fact that the Indian industries often suffer for want of adequate finance the National Government of India set up the Industrial Corporation in 1948 with an authorised capital of Rs. 10 crores, divided into 20,000 fully paid-up shares of Rs. 5000 each. These shares are guaranteed by the Government. The Government has also undertaken to guarantee the payment of minimum dividend. The sale of shares will be restricted to the Central Government (20 per cent), the Reserve Bank (20 per cent) Scheduled Banks (25 per cent), Investment Trust and Insurance Companies (25 per cent) and Co-operative Banks (10 per cent).

Management of this Corporation has been entrusted to a Board of Directors consisting of 12 members of whom 3 members should be nominated by the Central Government, 2 members should be nominated by the Reserve Bank. Of the remaining 7 members 2 members are to be elected by the shareholders of the Scheduled Banks, 2 members are to be elected by the shareholders of the Co-operative Banks and 2 members are to be elected by the remaining shareholders and one Managing Director to be appointed by the Central Government.

The Corporation shall in strict obedience to the direction of the Government guarantee loans of industrial concerns redeemable within 25 years and underwrite or purchase shares, stocks and debentures and advance loans to public companies.

The corporation may augment its funds by attracting 5 year-fixed

deposits from the public to the extent of Rs. 10 crores and may borrow money from the International Bank.

XXII. Change in the Tariff Policy.

Since the National Government of India came into power it has been their primary objective to protect Indian industries against unfair competition and to promote the best possible utilisation of India's resources. With a view to achieving this objective the policy of discriminating protection has been substituted for a more liberal policy which will facilitate rapid industrialisation of India. This has necessitated re-organisation of the constitution of Tariff Board and extension of its functions.

A committee has been set up with Sj. V. T. Krishnamachari as chairman to determine what changes are necessary in the Tariff policy of India in the light of the new national and international situation.

XXIII. Labour Policy of the Government.

The National Government of India missed no opportunity to call a conference of employers and workers in New Delhi to discuss in particular the labour-capital relationship. The said conference emphasized the importance of cordial relation between labour and capital in the new Government policy towards industrialisation. It invited the co-operation of the labourers in the present-day economy of the country and at the same time advised the industrialists to reduce their profits and to ameliorate the distress of the workers. To achieve this end strikes should be eliminated, by (i) providing a peaceful solution of industrial disputes, (ii) by forming works-committees and (iii) by establishing a machinery for determining fair wages and working conditions and housing arrangement. Accordingly a Central Advisory Council consisting of representatives of employers, labourers and government was constituted in August, 1948. This Council will be aided by provincial Advisory Boards and Provincial Committees in each major industry.

Tripartite Industrial Committees on Textiles, on Coal and Plantations have already come into being.

The Labour Department of the Government has initiated legislative reforms for the well-being of the labourers. These legislative measures include the Minimum wages Act, amendment of the Factories Act and the Employers' State Insurance Act, 1948.

To the benefit of the Industrial Labour a profit-sharing scheme has been drawn up. This scheme incorporates a proposal for calculating the net profit, 10 per cent of which will go to the Reserve Fund. The balance will be utilized by paying dividend at the rate of 6 per cent and dividing the remainder equally between the labourers and the proprietors. This scheme should be introduced in cotton textiles, jute, steel, cement and cigarette making.

A Housing Board has been constituted with a view to improving the housing of the workers at a cost to be shared by the workers and employers.

Factories Act of 1948 makes detailed provision for the health, safety and welfare of factory labourers and has reduced the hours of work from 54 to 48 hours. Employees' State Insurance Act, 1948 makes provision for the payment of benefits—sickness benefit, maternity benefit, disablement benefit, medical benefit and dependents benefit out of an Insurance Fund to be built up from the respective contribution made by the Employee, Employer, and the Government.

XXIV. Reforms in the Monetary System.

The intimate relationship which India had to maintain with Great Britain was in a way responsible for the relationship which the Indian rupee had to maintain with the English sterling.

India had no direct relation with currencies of other countries. The Reserve Bank of India had the statutory obligation of buying and selling sterling only. The Indian currency was aptly designated as the Sterling Exchange Standard. The fate of the sterling in Great Britain led to the loss of prestige of sterling in the Indian soil and it was thought convenient and desirable to join the International Monetary Fund. The Reserve Bank Act was amended with a view to enabling the Reserve Bank to buy and sell sterling and any other foreign currencies at such rates as may be fixed by the Government. The sale and purchase of foreign currencies were restricted to these dealers of exchange who were authorised to deal in foreign exchange under the Foreign Exchange Regulation Act of 1947 provided the amount demanded was not less than Rs. 2 lakhs.

The Indian rupee has been given a fixed value according to the Rules of the I. M. F. It is equal to 4·145 grains of gold and one dollar is equal to Rs. 3·085. The new status of the rupee found official recognition when the Act of 1947 removed the dominating influence of the British currency system over the Indian rupee. The Indian Rupee has thus attained an independent position. The Government of India has been empowered to mint rupees in any metal.

XXV. Rupee-Sterling Ratio.

Much discussion has taken place in regard to the necessity of changing the existing rate of exchange between rupee and sterling. There are critics who urge for depreciation of the rupee in response to its purchasing capacity which as the Index Numbers tell us has fallen greatly. In India the general prices record a rise of 307 per

cent while in the United Kingdom the prices have gone up by 80 per cent. Hence the rate of exchange should be re-adjusted according to the Purchasing Power Parity theory. If in spite of these different fluctuations in the purchasing power the existing rate of exchange is maintained the Indian rupee will become over valued for external. purposes. This will stimulate import and discourage export.

As against this argument for depreciation the following objections have been urged :—

(*a*) The cost of importing machinery which India will have to import in large quantities will increase to the detriment of Indian industries.

(*b*) The sterling balances will depreciate in value and this will mean a tremendous loss of India's assets in London.

(*c*) The inequality of income which has been brought about by the wartime inflation will continue for many years to come.

These arguments against depreciation have convinced the Government of India of the efficacy of the present rate of exchange and the Government has adopted the "no change policy".

XXVI. Currency system of Pakistan.

The division of India into two Dominions has necessitated different monetary system.

The Pakistan has now a new currency system. The State Bank of Pakistan has been established with a capital of Rs. 3 crores. It is a shareholder's bank but the Government has retained 51 per cent of the shares.

The Bank is authorised to issue notes fully covered by gold, Government securities and sterling securities. Sterling Exchange standard still continues.

XXVII. Banking Companies Act, 1949.

The Banking Companies Act, 1949 has defined a bank as any Company registered under the Indian Companies Act and carrying on banking business which includes borrowing, lending, dealing in negotiable instruments, agency work and underwriting. Every such banking institution shall take out a license from the Reserve Bank. Management must not be in the hands of directors of other companies.

The minimum paid-up capital and reserve of Banking Companies have been fixed with reference to their situation. 20 per

cent of the profits of the banking company must be transferred to the Reserve Fund.

The control of the Reserve Bank over the banking institutions has been strengthened. The said bank is to supervise the affairs of the banking institutions and to see that sound policy is maintained as regards loans and advances. Returns and reports of banking transactions are to be sent to the Reserve Bank so that the said bank may be in close touch with the banking institutions.

XXVIII. National Government Policy regarding Foreign Trade.

The foreign trade policy of the National Government deserves careful scrutiny. During the war-time a serious attempt was made to conserve the foreign exchange resources with a view to facilitating the import of war materials from U. S. A. and other foreign countries. These restrictions on the foreign trade and necessary control over foreign exchange continued even after the cessation of war in order to facilitate import of foodstuff and machineries from foreign countries. Rigidity of control has been withdrawn and there was comparative relaxation with a view to encouraging import of consumer's goods and reducing inflation. An Import Advisory Council has been set up. This is a representative body appointed to advise the Government in matters of general policy.

The necessity of an export surplus is beyond any dispute in view of the necessity of importing machineries for the rapid industrialisation of India. All foreign markets for Indian commodities should be definitely made known to the Indian producers. With this end in view India joined the British Industries Fair, the Canadian Exhibition and the Milan Fair. Representatives and ambassadors have been appointed with a view to exploring the possibilities for expansion of markets for Indian commodities.

India has also participated in the International Trade Organisation set up by the U.N. O. This organisation stands for gradual relaxation of control over foreign trade.

XXIX. Industrial Policy of the Pakistan Government.

Pakistan has enunciated its industrial policy with due reference to its natural resources. It is beyond any dispute that when the industrial position of the Indian Union is compared with that of Pakistan, the latter lags behind. The Pakistan Government has taken up the matter of industrialisation in right earnest. Plans have been prepared for developing 27 industries. Development Board and Iron and Steel Planning Board have been established. Pilot plants for exhibition purpose have been set up. Cordial relationship between labour and capital has been ensured. The Industrial Disputes Act, 1947 has been passed. Government has

undertaken to render assistance to the development of private industries by supplying capital goods and affording necessary protection according to the recommendation of the Tariff Board.

Investment of foreign capital has not been discouraged. An Industrial Finance Corporation is to be established with a view to furnishing necessary finance to the industries. The control of mines and mineral development has been placed in the hands of the Central Government. The 27 industries which are to be developed include cement, sugar, tobacco, paper, heavy chemicals iron and steel, electricity.

APPENDIX K

Tables

(1) *A Table showing the Density of Population in India and in Different Provinces.*

Census 1941.

		Area		Population		Density
India	...	1808679 sq. miles		38·8 crores		248
Bengal	...	82876	,,	6	,,	742
Bombay	...	132700	,,	4·9	,,	226
Bihar	...	54310	,,	3·6	,,	340
Orissa	...	57392	,,	1·3	,,	233
Assam	...	67334	,,	1	,,	130
U. P.	...	112523	,,	5·5	,,	501
The Punjab	...	38 05	,,	2·8	,,	248
C. P. & Berar	...	131517	,,	1·6	,,	120
N. W. F. Province	...	39249	,,	·3	,,	106
Madras	...	27768	,,	4·9	,,	390

(2) *A Table showing the Percentage of the Urban Population in Different Provinces.*

Bengal	...	...	6·5	p. c.
Bombay	...	...	·23	,,
Madras	...	...	12·5	,,
The Punjab	...	...	11·5	,,
U. P.	...	...	10·5	,,
C. P.	...	...	·9	,,
Bihar & Orissa	...	...	·4	,,
Assam	...	...	·3	,,

(3) *A Table showing Increase in Population in the Decade 1931-41*

		Increase in thousands	Percentages of Increase
India	...	53681	+ 15
Bengal	...	2866	15·9
Bombay	...	5137	11·6
Madras	...	39072	15·2
Bihar	...	3969	12·3
Orissa	...	703	8·2
C. P. & Berar	...	1499	9·8
The Punjab	...	4838	20·4
U. P.	...	6612	13·6

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